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SUBORDINATE INSTALLMENT PURCHASE AGREEMENT

by and between

CITY OF SAN DIEGO

and

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

Dated as of May 1, 2007

relating to

\$ _____
PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
SUBORDINATE SEWER REVENUE NOTES, SERIES 2007

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SUBORDINATE INSTALLMENT PURCHASE AGREEMENT

This SUBORDINATE INSTALLMENT PURCHASE AGREEMENT, made and entered into as of May 1, 2007 by and between the CITY OF SAN DIEGO, a municipal corporation duly organized and existing under and by virtue of its Charter and the Constitution and the laws of the State of California (the "City"), and PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO, a joint exercise of powers agency duly organized and existing under and by virtue of the laws of the State of California (the "Authority").

W I T N E S S E T H:

WHEREAS, the City desires to finance and refinance the acquisition of certain capital improvements, as more particularly described in Exhibit B hereto (the "Project"); and

WHEREAS, the Authority desires to assist the City in financing and refinancing the acquisition and construction of the Project; and

WHEREAS, in order to provide the funds to finance and refinance the Project, the City and the Authority will issue and cause Wells Fargo Bank, National Association, as trustee (the "Trustee"), to authenticate and deliver notes secured by the payments to be made by City to the Authority under this Subordinate Installment Purchase Agreement (the "Series 2007 Subordinate Notes"), pursuant to a Subordinate Indenture of Trust, dated as of May 1, 2007 by and between the Authority and the Trustee; and

WHEREAS, the City is currently making installment payments (the "2004 Installment Payments") on that portion of the Project initially purchased by the City from the Authority (the "2004 Project Components") pursuant to the 2004 Supplement to the Master Installment Purchase Agreement by and between the City and the Authority; and

WHEREAS, the City has proposed and the Authority has agreed to refinance the 2004 Installment Payments pursuant to this Subordinate Installment Purchase Agreement; and

WHEREAS, the City has proposed to purchase the new components of the Project (the "2007 Project Components") from the Authority, and to reimburse itself for eligible expenditures, pursuant to this Subordinate Installment Purchase Agreement at such purchase price as, together with the refinanced 2004 Installment Payments to be made hereunder, will provide a sufficient amount for the payment of the cost to finance and refinance the Project; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Subordinate Installment Purchase Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Subordinate Installment Purchase Agreement;

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein. Unless the context otherwise requires, all capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the Indenture.

Accountant's Report. The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Agreement. The term "Agreement" means this Subordinate Installment Purchase Agreement, by and between the City and the Authority, dated as of May 1, 2007, as originally executed and as it may from time to time be amended or supplemented in accordance herewith.

Authority. The term "Authority" means the Public Facilities Financing Authority of the City of San Diego, a joint exercise of powers agency duly organized and existing under and by virtue of the laws of the State of California.

Authorized Authority Representative. The term "Authorized Authority Representative" means the Chairman or any member of the Authority's Board of Commissioners, or any other person designated by an Authorized Authority Representative to act on behalf of such Authorized Authority Representative.

Authorized City Representative. The term "Authorized City Representative" means the Mayor, Chief Financial Officer or Chief Operating Officer of the City, or any other person designated by an Authorized City Representative to act on behalf of such Authorized City Representative.

Bond Counsel. The term "Bond Counsel" means a firm of attorneys which is nationally recognized as experts in the area of municipal finance.

Business Day. The term "Business Day" means a day other than: a Saturday or Sunday or a day on which (i) banks located in the city in which the principal corporate trust office of the Trustee is located are required or authorized to remain closed, and (ii) on which The New York Stock Exchange is closed.

City. The term "City" means the City of San Diego, a municipal corporation duly organized and existing under and by virtue of its Charter and the Constitution and the laws of the State of California.

Components. The term "Components" means components of the Project specified on Exhibit B hereto.

Event of Default. The term "Event of Default" means an event described in Section 8.1.

Existing Senior Obligations. The term "Existing Senior Obligations" means Outstanding MIPA Parity Obligations, any other Outstanding MIPA Obligations and the Senior State Revolving Fund Loans.

Fiscal Year. The term "Fiscal Year" means the period beginning on July 1 of each year and ending on the last day of June of the next succeeding year, or any other twelve-month period selected and designated as the official Fiscal Year of the City.

Indenture. The term "Indenture" means the Subordinate Indenture of Trust dated as of May 1, 2007, by and between the Authority and Wells Fargo Bank, National Association, relating to the Series 2007 Notes, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

Independent Certified Public Accountant. The term "Independent Certified Public Accountant" means any firm of certified public accountants appointed by the City, each of whom is independent of the City and the Authority pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Financial Consultant. The term "Independent Financial Consultant" means a financial consultant or firm of such consultants appointed by the City, and who, or each of whom: (1) is in fact independent and not under domination of the City; (2) does not have any substantial interest, direct or indirect, with the City; and (3) is not connected with the City as an officer or employee thereof, but who may be regularly retained to make reports thereto.

Interest Payment Date. The term "Interest Payment Date" means each date on which interest payments are scheduled to be paid by the Authority pursuant to the Indenture.

Interest Rate Swap Agreement. The term "Interest Rate Swap Agreement" means all interest rate swap agreements authorized and executed by the City or the Authority the payments under which are secured by a pledge and lien on Net System Revenues.

Master Installment Purchase Agreement. The term "Master Installment Purchase Agreement" means the Master Installment Purchase Agreement dated as of September 1, 1993 by and between the City and the Authority, as it has been and is from time to time modified, amended or supplemented.

MIPA Obligation. The term "MIPA Obligation" shall have the meaning given to the term "Obligation" in the Master Installment Purchase Agreement.

MIPA Parity Obligation. The term "MIPA Parity Obligation" shall have the meaning given to the term "Parity Obligation" in the Master Installment Purchase Agreement.

MIPA Subordinated Obligation. The term "MIPA Subordinated Obligation" shall have the meaning given to the term "Subordinated Obligation" in the Master Installment Purchase Agreement.

Net Proceeds. The term "Net Proceeds" means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys fees) incurred in the collection of such proceeds.

Net Subordinate Revenues. The term "Net Subordinate Revenues" means, for any Fiscal Year, the System Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year and less Senior Debt Service, if any, payable in such Fiscal Year.

Net System Revenues. The term "Net System Revenues" means, for any Fiscal Year, the System Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.

New Senior Obligations. The term "New Senior Obligations" means any Obligations which are incurred in accordance with Section 5.4 hereof and which are secured by a pledge of and a lien on the Net System Revenues senior to the pledge of and lien on Net System Revenues under this Agreement, and the payments of which are payable from Net System Revenues on a basis senior to the Subordinate Installment Payments, but excluding contracts entered into for operation and maintenance of the Wastewater System.

Obligations. The term "Obligations" means (i) Senior Obligations; (ii) Subordinate Obligations; (iii) obligations of the City for money borrowed (such as bonds, notes or other evidences of indebtedness) or as installment purchase payments under any contract, or under contracts to exchange cash flows (including (a) any contract providing for payments based on levels of, or changes in, interest rates, currency exchanges rates, stock or other indices, (b) any contract to exchange cash flows or a series of payments or (c) any contract to hedge payment, currency, rate spread or similar exposure, including but not limited to interest rate swap agreements and interest rate cap agreements), or as lease payments under any financing lease (determined to be such in accordance with generally accepted accounting principles), the principal and interest on which are payable from Net System Revenues subordinate to Subordinate Obligations; and (iv) obligations to replenish any debt service reserve funds with respect to Obligations described in (i), (ii) and (iii) above.

Operation and Maintenance Costs. The term "Operation and Maintenance Costs" means costs spent or incurred for maintenance and operation of the Wastewater System calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including administrative costs of the City that are charged directly or apportioned to the Wastewater System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges (other than Subordinate Debt Service and Senior Debt Service, if any) required to be paid by it to comply with the terms of any Senior Obligation, this Agreement or any other Subordinate Contract or of any resolution or indenture authorizing the issuance of any Subordinate Bonds, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Outstanding. The term "Outstanding," when used as of any particular time with respect to Obligations, means all Obligations theretofore or thereupon executed, authenticated and delivered by the City or any trustee or other fiduciary, except (i) Obligations theretofore cancelled or surrendered for cancellation; (ii) Obligations paid or deemed to be paid within the meaning of any defeasance provisions thereof; (iii) Obligations owned by the City or the Authority; and (iv) Obligations in lieu of or in substitution for which other Obligations have been executed and delivered.

Paired Obligations. The term "Paired Obligations" means any Subordinate Obligations (or portion thereof) designated as Paired Obligations in the resolution, indenture or other document authorizing the issuance or execution and delivery thereof, (i) the principal of which is of equal amount maturing and to be redeemed or prepaid (or cancelled after acquisition thereof) on the same dates and in the same amounts, and (ii) the interest rates which, taken together, are intended to result in a fixed interest rate obligation or a variable interest rate obligation of the City for the term of such Subordinate Obligations at the time such Subordinate Obligations were incurred, all as certified to by an Independent Financial Consultant.

Parity Subordinate Installment Payment Date. The term "Parity Subordinate Installment Payment Date" means each date on which Parity Subordinate Installment Payments are scheduled to be paid by the City under and pursuant to any Subordinate Contract.

Parity Subordinate Installment Payments. The term "Parity Subordinate Installment Payments" means the payments of interest and principal or other scheduled payments scheduled to be paid by the City under and pursuant to the Subordinate Contracts.

Project. The term "Project" means the 2004 Project Components and the 2007 Project Components described in Exhibit B hereto.

Purchase Price. The term "Purchase Price" means the principal amount plus interest thereon owed by the City to the Authority under the terms hereof as provided in Section 4.1 and set forth in Exhibit A hereto.

Rate Stabilization Fund. The term "Rate Stabilization Fund" means any fund by that name established or continued by the City as contemplated by Section 6.13(b) hereof.

Revenue Fund. The term "Revenue Fund" means (i) all revenue accounts for the deposit of System Revenues of the Wastewater System maintained by the City as of the date of this Agreement and (ii) any revenue account created after the date of this Agreement and designated by an Authorized City Representative as a part of the Revenue Fund.

Senior Debt Service. The term "Senior Debt Service" means, for any Fiscal Year, the sum of:

- (1) the interest payable during such Fiscal Year on all outstanding Senior Obligations, assuming that all outstanding serial Senior Obligations are retired as scheduled and that all outstanding term Senior Obligations are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized);
- (2) those portions of the principal amount of all outstanding serial Senior Obligations maturing in such Fiscal Year; and
- (3) those portions of the principal amount of all outstanding term Senior Obligations required to be prepaid or paid in such Fiscal Year;

but minus the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for the Senior Obligations;

provided that, as to any such Senior Obligations bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Senior Debt Service shall, for all purposes, be assumed to be a fixed rate equal to the higher of

- (i) the actual rate on the date of calculation, or if such Senior Obligation is not yet outstanding, the initial rate (if established and binding), and
- (ii) the highest average variable rate borne over any ninety (90) day period in the preceding 24 months by outstanding variable Senior Obligations or, if no such variable rate debt is at the time outstanding, by variable rate debt of which the interest rate is computed by reference to an index, plus any margin over such index, comparable to that to be utilized in determining the interest rate for the debt then proposed to be issued;

and provided further that if any series or issue of such Senior Obligations have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Senior Debt Service shall be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Senior Obligations were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of thirty (30) years from the date of calculation;

and provided further that, as to any such Senior Obligations or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Senior Obligations or portions thereof, such accreted discount shall be treated as interest in the calculation of Senior Debt Service in the Fiscal Year when due;

and provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Senior Debt Service shall be deducted from the amount of principal due at the final maturity of the Senior Obligations for which such debt service reserve fund was established and in each preceding year until such amount is exhausted;

and provided further that if the Senior Obligations constitute Paired Obligations, the interest rate on such Senior Obligations shall be the resulting linked rate or the effective fixed or variable interest rate to be paid by the City with respect to such Paired Obligations; and

provided further that for Senior Obligations which are Interest Rate Swap Agreements which do not constitute Paired Obligations but for which an *Independent Financial Consultant* certifies that such Senior Obligations have a fixed spread component payable to the City, Senior Debt Service shall be credited by an amount equal to the lesser of (i) the average of the actual payment received by the City over the last three Fiscal Years (or if outstanding less than three years, over the period outstanding) and (ii) the fixed spread component.

Senior Obligations. The term "Senior Obligations" means the New Senior Obligations and the Existing Senior Obligations.

Senior State Revolving Fund Loans. The term "Senior State Revolving Fund Loans" means loans from the California Department of Water Resources Control Board designated as Loan Number C-06-4703-110, ISA Number C-06-4786-110 and ISA Number C-06-4540-110.

Series 2007 Notes. The term "Series 2007 Notes" means the Authority's Subordinate Sewer Revenue Notes, Series 2007 issued pursuant to the Indenture.

Subordinate Bonds. The term "Subordinate Bonds" means all revenue bonds or notes of the City authorized, executed, issued and delivered by the City, the payments of which are payable from Net Subordinate Revenues on a parity with the Subordinate Installment Payments and which are secured by a pledge of and lien on the Net System Revenues as described in Section 5.1 hereof.

Subordinate Contracts. The term "Subordinate Contracts" means (i) this Subordinate Installment Purchase Agreement and any amendments and supplements hereto, (ii) all contracts of the City hereafter authorized and executed by the City pursuant to Section 5.3 hereof, the Parity Subordinate Installment Payments under which are payable from Net Subordinate Revenues on a parity with the Subordinate Installment Payments hereunder and which are secured by a pledge and lien on the Net System Revenues as described in Section 5.1 hereof, and (iii) the Subordinate State Revolving Fund Loans; but excluding contracts entered into for operation and maintenance of the Wastewater System.

Subordinate Debt Service. The term "Subordinate Debt Service" means, for any Fiscal Year, the sum of:

- (1) the interest payable during such Fiscal Year on all outstanding Subordinate Bonds, assuming that all outstanding serial Subordinate Bonds are retired as scheduled and that all outstanding term Subordinate Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized);
- (2) those portions of the principal amount of all outstanding serial Subordinate Bonds maturing in such Fiscal Year;
- (3) those portions of the principal amount of all outstanding term Subordinate Bonds required to be prepaid or paid in such Fiscal Year; and
- (4) those portions of the Parity Subordinate Installment Payments required to be made during such Fiscal Year (except to the extent the interest evidenced and represented thereby is capitalized);

but minus the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for Subordinate Obligations;

provided that, as to any such Subordinate Obligations bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Subordinate Debt Service shall, for all purposes, be assumed to be a fixed rate equal to the higher of

- (i) the actual rate on the date of calculation, or if such Subordinate Obligation is not yet outstanding, the initial rate (if established and binding), and
- (ii) the highest average variable rate borne over any ninety (90) day period in the preceding 24 months by outstanding variable rate Subordinate Obligations or, if no such variable rate debt is at the time outstanding, by variable rate debt of which the interest rate is computed by reference to an index, plus any margin over such index,

comparable to that to be utilized in determining the interest rate for the debt then proposed to be issued;

and provided further that if any series or issue of such Subordinate Obligations have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, *Subordinate Debt Service shall be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Subordinate Obligations were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of thirty (30) years from the date of calculation;*

and provided further that, as to any such Subordinate Obligations or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Subordinate Obligations or portions thereof, such accreted discount shall be treated as interest in the calculation of Subordinate Debt Service in the Fiscal Year when due;

and provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Subordinate Debt Service shall be deducted from the amount of principal due at the final maturity of the Subordinate Obligations for which such debt service reserve fund was established and in each preceding year until such amount is exhausted;

and provided further that if the Subordinate Obligations constitute Paired Obligations, the interest rate with respect to such Subordinate Obligations shall be the resulting linked rate or the effective fixed or variable interest rate to be paid by the City with respect to such Paired Obligations; and

provided further that for Subordinate Contracts which are Interest Rate Swap Agreements which do not constitute Paired Obligations but for which an Independent Financial Consultant certifies that such Subordinate Contracts have a fixed spread component payable to the City, Subordinate Debt Service shall be credited by an amount equal to the lesser of (i) the average of the actual payment received by the City over the last three Fiscal Years (or if outstanding less than three years, over the period outstanding) and (ii) the fixed spread component.

Subordinate Installment Payment Date. The term "Subordinate Installment Payment Date" means the fifth day prior to each Interest Payment Date, or if said date is not a Business Day, then the preceding Business Day.

Subordinate Installment Payments. The term "Subordinate Installment Payments" means the Subordinate Installment Payments of interest and principal scheduled to be paid by the City under and pursuant hereto.

Subordinate Obligations. The term "Subordinate Obligations" means all Subordinate Bonds and all Subordinate Contracts.

Subordinate State Revolving Fund Loans. The term "Subordinate State Revolving Fund Loans" means loans from the California Department of Water Resources Control Board designated as Loan Numbers C-06-4383-110, C-06-4542-110, C-06-4119-510, C-06-4119-410, C-06-4650-210, C-06-4690-110, C-06-4650-110, and C-06-4718-110.

System Revenues. The term "System Revenues" means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Wastewater System, including all

receipts with respect to the Municipal System and all receipts with respect to the Metropolitan System and including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges (including standby and capacity charges), or other moneys derived by the City from the wastewater services, facilities, and commodities or byproducts sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Wastewater System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Wastewater System by or pursuant to law, earnings on any reserve fund for Obligations but only to the extent that such earnings may be utilized under the issuing instrument for the payment of debt service for such Obligations; (2) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Wastewater System; (3) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Wastewater System; (4) amounts received under contracts or agreements with governmental or private entities and designated for Operation and Maintenance Costs or capital costs for Components which are to be part of the Wastewater System; and (5) grants received from the United States of America or from the State of California for facilities which are to be part of the Wastewater System; provided, however, that System Revenues shall not include: (a) in all cases, customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (b) the proceeds of borrowings. Notwithstanding the foregoing, there shall be deducted from System Revenues any amounts transferred into a Rate Stabilization Fund as contemplated by Section 6.13(b), and there shall be added to System Revenues any amounts transferred out of such Rate Stabilization Fund to pay Operation and Maintenance Costs or capital costs of the Wastewater System [(but not including any payment of Senior Debt Service, Subordinate Debt Service or debt service on other Obligations)].

Trustee. The term "Trustee" means Wells Fargo Bank, National Association, acting in its capacity as Trustee under and pursuant to the Indenture, and its successors and assigns.

2004 Project Components. The term "2004 Project Components" means those certain capital improvements listed as such on Exhibit B hereto.

2007 Project Components. The term "2007 Project Components" means those certain capital improvements listed as such on Exhibit B hereto.

Wastewater Service. The term "Wastewater Service" means the wastewater collection and treatment services made available or provided by the Wastewater System.

Wastewater System. The term "Wastewater System" means any and all facilities, properties and improvements at any time owned, controlled or operated by the City as part of the Wastewater System for the collection, treatment, distribution, administration, disposal or reclamation of waste.

Written Consent of the Authority or City, Written Order of the Authority or City, Written Request of the Authority or City, Written Requisition of the Authority or City. The terms "Written Consent of the Authority or City," "Written Order of the Authority or City," "Written Request of the Authority or City," and "Written Requisition of the Authority or City" mean, respectively, a written consent, order, request or requisition signed by or on behalf of (i) the Authority by an Authorized Authority Representative or (ii) the City by an Authorized City Representative.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations by the City. The City makes the following representations:

- (a) The City is a municipal corporation duly organized and existing under and pursuant to its Charter and the Constitution and laws of the State of California.
- (b) The City has full legal right, power and authority to enter into this Agreement and carry out its obligations hereunder, to carry out and consummate all other transactions contemplated by this Agreement, and the City has complied with the provisions of the law in all matters relating to such transactions.
- (c) By proper action, the City has duly authorized the execution, delivery and due performance of this Agreement.
- (d) The City will not take or, to the extent within its power, permit any action to be taken which results in the interest paid for the installment purchase of the Project under the terms of this Agreement being included in the gross income of the owners of the Series 2007 Notes or its assigns for purposes of federal or State of California income taxation.
- (e) The City has determined that it is necessary and proper for City uses and purposes within the terms of the law that the City finance and refinance the acquisition and construction of the Project in the manner provided for in this Agreement.

Section 2.2. Representations and Warranties by the Authority. The Authority makes the following representations and warranties:

- (a) The Authority is a joint exercise of powers agency duly organized and in good standing under the laws of the State of California, has full legal right, power and authority to enter into this Agreement and to carry out and consummate all transactions contemplated by this Agreement and by proper action has duly authorized the execution and delivery and due performance of this Agreement.
- (b) The execution and delivery of this Agreement and the consummation of the transactions herein contemplated will not violate any provision of law, any order of any court or other agency of government, or any indenture, material agreement or other instrument to which the Authority is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Authority.
- (c) The Authority will not take or permit any action to be taken which results in interest paid for the installment purchase of the Project under the terms of this Agreement being included in the gross income of the owners of the Series 2007 Notes for purposes of federal or State of California income taxation.

ARTICLE III

ACQUISITION OF THE PROJECT

Section 3.1. Sale and Purchase of 2004 Project Components. In consideration for the Authority's assistance in refinancing the 2004 Project Components, the City agrees to transfer, and hereby transfers, to the Authority, and the Authority agrees to and hereby accepts, from the City, the 2004 Project Components.

Section 3.2. Purchase and Sale of the Project. In consideration for the Subordinate Installment Purchase Payments as set forth in Section 4.2, the Authority agrees to sell, and hereby sells, to the City, and the City agrees to purchase, and hereby purchases, from the Authority, the Project at the purchase price specified in Section 4.1 hereof and otherwise in the manner and in accordance with the provisions of this Agreement.

Section 3.3. Title. All right, title and interest in the 2004 Project Components shall vest in the City immediately upon execution and delivery of this Agreement. All right, title and interest in the 2007 Project Components shall vest in the City immediately upon the acquisition or construction thereof without further action by the parties hereto.

ARTICLE IV

SUBORDINATE INSTALLMENT PAYMENTS

Section 4.1. Purchase Price.

(a) The Purchase Price to be paid by the City hereunder to the Authority is the sum of the principal amount of the City's obligations hereunder plus the interest to accrue on the unpaid balance of such principal amount from the effective date hereof over the term hereof, subject to prepayment as provided in Article VII.

(b) The principal amount of the payments to be made by the City hereunder is set forth in Exhibit A hereto.

(c) The interest to accrue on the unpaid balance of the Purchase Price shall be equal to the interest payable with respect to the Series 2007 Notes as provided in Section 2.12 of the Indenture, and shall be paid by the City as and constitute interest paid on the principal amount of the City's obligations hereunder.

Section 4.2. Subordinate Installment Payments. The City shall, subject to any rights of prepayment provided in Article VII, pay the Authority the Subordinate Installment Payments set forth in Section 4.1.

Each Subordinate Installment Payment shall be paid to the Authority in lawful money of the United States of America. In the event the City fails to make any of the payments required to be made by it under this section, such payment shall continue as an obligation of the City until such amount shall have been fully paid; and the City agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Subordinate Installment Payments if paid in accordance with their terms.

The obligation of the City to make the Subordinate Installment Payments is absolute and unconditional, and until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof shall have been made pursuant to Article IX), the City will not discontinue or suspend any Subordinate Installment Payments required to be made by it under this section when due, whether or not the Wastewater System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and whether or not the Project has been completed, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

ARTICLE V

SECURITY

Section 5.1. Pledge of Net System Revenues. All Net System Revenues and all amounts on deposit in the Revenue Fund constituting Net System Revenues are hereby irrevocably pledged to the payment of the Subordinate Installment Payments as provided herein and the Net System Revenues shall not be used for any other purpose while any of the Subordinate Installment Payments remain unpaid; provided that out of the Net System Revenues there may be apportioned such sums for such purposes as are expressly permitted herein including, without limitation, in Section 5.2 hereof. This pledge, together with the pledge created by all other Subordinate Obligations, shall constitute a lien on Net System Revenues and, subject to application of amounts on deposit therein as permitted herein, the Net System Revenues in the Revenue Fund and other funds and accounts created hereunder for the payment of the Subordinate Installment Payments and all other Subordinate Obligations in accordance with the terms hereof and the Indenture; provided, however, that so long as any Existing Senior Obligations remain Outstanding, the City's payment obligation hereunder shall be subordinate to such Existing Senior Obligations and said lien on Net System Revenues is subject to the lien on Net System Revenues in favor of such Existing Senior Obligations; and provided further that the City may from time to time enter into New Senior Obligations secured by a lien on Net System Revenues senior to the pledge and lien of this Agreement.

Section 5.2. Allocation of System Revenues. In order to carry out and effectuate the pledge and lien contained herein, the City agrees and covenants that all System Revenues shall be received by the City in trust hereunder and shall be deposited when and as received in a special fund designated as the "Revenue Fund," which fund includes the accounts described in the definition thereof and which fund the City agrees and covenants to maintain and to hold separate and apart from other funds so long as any Subordinate Obligations remain unpaid. The Sewer Revenue Fund described in Section 5.02 of the Master Installment Purchase Agreement shall satisfy the requirements of the preceding sentence. Moneys in the Revenue Fund shall be used and applied by the City as provided in this Agreement.

The City shall, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable, and thereafter pay all Senior Debt Service as such Senior Debt Service becomes due and payable, and thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably, transfer to the applicable trustee for reserve funds or accounts as may have been established in connection with the incurrence of Senior Obligations that sum, if any necessary to restore such reserve funds and/or accounts to any amount

equal to their required balance. Subject to the payment of debt service on any Subordinate State Revolving Fund Loans payable on a basis senior to the Subordinate Obligations, all remaining moneys in the Revenue Fund shall be thereafter set aside by the City at the following times for the transfer to the following respective special funds in the following order of priority; and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes set forth in this Section.

(a) Subordinate Installment Payments. Not later than each Subordinate Installment Payment Date, the City shall, from the moneys in the Revenue Fund, transfer to the Trustee the Subordinate Installment Payment due and payable on that Subordinate Installment Payment Date. The City shall also, from the moneys in the Revenue Fund, transfer to the applicable (i) trustee for deposit in the respective payment fund, or (ii) payee, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Subordinate Debt Service in accordance with the provisions of any Subordinate Obligation.

(b) Reserve Funds. On or before each Subordinate Installment Payment Date the City shall, from the remaining moneys in the Revenue Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee for reserve funds and/or accounts, if any, as may have been established in connection with any Subordinate Obligations other than this Agreement, that sum, if any, necessary to restore such reserve funds and/or accounts to an amount equal to the required balance.

(c) Surplus. Moneys on deposit in the Revenue Fund not necessary to make any of the payments required above may be expended by the City at any time for any purpose permitted by law, subject to compliance with Sections 6.1, 6.5 and 6.13 hereof.

Section 5.3. Additional Subordinate Obligations. (a) Subject to Section 5.5 hereof, the City may at any time enter into any Subordinate Obligation in accordance herewith, and, so long as any MIPA Parity Obligation under the Master Installment Purchase Agreement is Outstanding, as permitted by Section 5.01(d) thereof; provided the City obtains or provides a certificate or certificates, prepared by the City or at the City's option by an Independent Financial Consultant, showing that:

(i) the Net Subordinate Revenues as shown by the books of the City for any 12-consecutive month period within the 24-consecutive months ending immediately prior to the incurring of such additional Subordinate Obligations, minus the earnings derived during such 12-month period from the investment of moneys on deposit in debt service reserve funds established for Subordinate Obligations, shall have amounted to at least 1.00 times the first full Fiscal Year's Subordinate Debt Service on all Subordinate Obligations to be Outstanding immediately after the incurrence of the proposed Subordinate Obligations; or

(ii) the estimated Net Subordinate Revenues for each of the five full Fiscal Years following the earlier of (A) the end of the period during which interest on the proposed Subordinate Obligation is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Subordinate Obligations are incurred; or (B) the date on which substantially all new facilities financed through the incurrence of such Subordinated Obligations are expected to commence operations, minus the earnings to be derived during such five Fiscal Years from the investment of moneys on deposit in debt service reserve

funds established for Subordinate Obligations, will be at least equal to 1.00 times each of the five full Fiscal Year's Subordinate Debt Service and thereafter at least equal to 1.00 times maximum annual Subordinate Debt Service on all Subordinate Obligations to be Outstanding immediately after the incurrence of the proposed Subordinate Obligations.

(b) For purposes of preparing the certificate or certificates described in clause (i) of subsection (a) above, the Independent Financial Consultant may rely in good faith upon financial statements prepared by the City, which have not been subject to audit by an independent Certified Public Accountant if audited financial statements for the period are not available.

(c) For purposes of the computations to be made as described in clause (ii) of subsection (a) above, the determination of Net Subordinate Revenues:

(i) may take into account any increases in rates and charges which relate to the Wastewater System and which have been approved by the City Council, and shall take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in clause (ii) of subsection (a) above, be effective during a Fiscal Year ending within the five-year period for which such estimate is made; and

(ii) may take into account an allowance for any estimated increase in such Net Subordinate Revenues from any revenue producing additions or improvements to or extensions of the Wastewater System in an amount equal to the estimated additional average annual Net Subordinate Revenues to be derived from such additions, improvements or extensions during the five-year period contemplated by clause (ii) of subsection (a) above, as shown by such certificate of the City or an Independent Financial Consultant, as applicable; and

(iii) for the period contemplated by clause (ii) of subsection (a) above Operation and Maintenance Costs of the Wastewater System shall be deemed to be equal to such costs for the 12 consecutive months immediately prior to incurring such proposed Subordinate Bonds or Subordinate Contracts for the first year of the five-year period, but adjusted if deemed necessary by the City or an Independent Financial Consultant, as applicable, for any increased or decreased Operation and Maintenance Costs of the Wastewater System which are, in the judgment of the City or an Independent Financial Consultant, as applicable, essential to maintaining and operating the Wastewater System and which will occur during any Fiscal Year ending within the period contemplated by clause (ii) of subsection (a).

(d) The certificate or certificates described above in subsection (a) above shall not be required (i) with respect to the execution of this Agreement, or (ii) if the Subordinate Obligations being incurred are for the purpose of refunding (A) then-Outstanding Senior Obligations if at the time of the incurrence of such Subordinate Obligations a certificate of an Authorized City Representative shall be delivered showing that the sum of Senior Debt Service plus Subordinate Debt Service for all remaining Fiscal Years after the incurrence of the refunding Subordinate Obligations will not exceed the sum of Senior Debt Service plus Subordinate Debt Service for all remaining Fiscal Years prior to the incurrence of such refunding Subordinate Obligations; or (B) then-Outstanding balloon indebtedness, tender indebtedness or variable rate indebtedness, but only to the

extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased by a standby purchase or other liquidity facility relating to such indebtedness.

(e) This Section 5.3 notwithstanding, but subject to Section 5.5, Subordinate Obligations may be incurred to refund outstanding Subordinate Obligations if, after giving effect to the application of the proceeds thereof, total Subordinate Debt Service will not be increased in any Fiscal Year in which Subordinate Obligations (Outstanding on the date of incurrence of such refunding Subordinate Obligations, but excluding such refunding Subordinate Obligations) not being refunded are Outstanding.

(f) Nothing herein shall preclude the City from incurring any Obligations the payments under which are payable from Net Subordinate Revenues on a basis subordinate to all Subordinate Obligations.

Section 5.4. New Senior Obligations. (a) Subject to Section 5.5 hereof, the City may at any time create or incur New Senior Obligations provided the City obtains or provides a certificate or certificates, prepared by the City or at the City's option by an Independent Financial Consultant, showing that:

(i) the Net System Revenues as shown by the books of the City for any 12-consecutive month period within the 24-consecutive months ending immediately prior to the incurring of such New Senior Obligations, minus the earnings derived during such 12-month period from the investment of moneys on deposit in debt service reserve funds established for Senior Obligations, shall have amounted to at least 1.15 times the first full Fiscal Year's Senior Debt Service on all Senior Obligations to be Outstanding immediately after the incurrence of the proposed New Senior Obligations and Net Subordinate Revenues for the same period shall have amounted to at least 1.00 times the first full Fiscal Year's Subordinate Debt Service on all Subordinate Obligations to be outstanding immediately after the incurrence of the proposed New Senior Obligations; or

(ii) the estimated Net System Revenues for each of the five full Fiscal Years following the earlier of (A) the end of the period during which interest on the proposed New Senior Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the New Senior Obligations are issued; or (B) the date on which substantially all new facilities financed through the incurrence of such Senior Obligations are expected to commence operations, minus the earnings to be derived during such five Fiscal Years from the investment of moneys on deposit in debt service reserve funds established for Senior Obligations, will be at least equal to 1.15 times each of the five full Fiscal Years' Senior Debt Service and thereafter at least equal to 1.15 times maximum annual Senior Debt Service on all Senior Obligations to be Outstanding immediately after the incurrence of the proposed New Senior Obligations and the Net Subordinate Revenues will be at least equal to 1.00 times each of the five full Fiscal Year's Subordinate Debt Service and thereafter at least equal to 1.00 times maximum annual Subordinate Debt Service on all Subordinate Obligations to be Outstanding immediately after the incurrence of the proposed New Senior Obligations.

(b) For purposes of preparing the certificate or certificates described in clause (i) of subsection (a) above, the Independent Financial Consultant may rely upon financial statements

prepared by the City, which have not been subject to audit by an independent certified public accountant if audited financial statements for the period are not available.

(c) For purposes of the computations to be made as described in clause (ii) of subsection (a) above, the determination of Net System Revenues:

(i) may take into account any increases in rates and charges which relate to the Wastewater System and which have been approved by the City Council, and shall take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in clause (ii) of subsection (a) above, be effective during a Fiscal Year ending within the five-year period for which such estimate is made; and

(ii) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue producing additions or improvements to or extensions of the Wastewater System in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the five-year period contemplated by clause (ii) of subsection (a) above, as shown by such certificate of the City or an Independent Financial Consultant, as applicable; and

(iii) for the period contemplated by clause (ii) of subsection (a) above Operation and Maintenance Costs of the Wastewater System shall be deemed to be equal to such costs for the 12 consecutive months immediately prior to incurring such other Senior Obligations for the first year of the five-year period, but adjusted if deemed necessary by the City or an Independent Financial Consultant, as applicable, for any increased or decreased Operation and Maintenance Costs of the Wastewater System which are, in the judgment of the City or an Independent Financial Consultant, as applicable, essential to maintaining and operating the Wastewater System and which will occur during any Fiscal Year ending within the period contemplated by clause (ii) of subsection (a).

(d) The certificate or certificates described above in subsection (a) above shall not be required if the New Senior Obligations being incurred are for the purpose of refunding (A) then-outstanding Senior Obligations if at the time of the incurrence of such New Senior Obligations a certificate of an Authorized City Representative shall be delivered showing that the sum of Senior Debt Service for all remaining Fiscal Years on all Senior Obligations Outstanding after the incurrence of the refunding New Senior Obligations will not exceed the sum of Senior Debt Service for all remaining Fiscal Years on all Senior Obligations Outstanding prior to the incurrence of such refunding New Senior Obligations; or (B) then-Outstanding balloon indebtedness, tender indebtedness or variable rate indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased by a standby purchase or other liquidity facility relating to such indebtedness.

(e) Nothing herein shall preclude the City from issuing any bonds or installment purchase contracts the payments under which are subordinate to any Subordinate Bonds or Subordinate Contracts of the City.

Section 5.5. Limitation on Additional Obligations. (a) Notwithstanding anything to the contrary herein, so long as any Series 2007 Notes are Outstanding, the City shall not incur any new

Obligations other than the following: (i) Subordinate Obligations, New Senior Obligations or MIPA Parity Obligations the proceeds of which are applied to the refunding of the MIPA Parity Obligations ("Refunding Obligations") and the costs related thereto, provided that (A) at the time of the incurrence of such Refunding Obligations a certificate of an Authorized City Representative shall be delivered showing that the sum of Senior Debt Service and Subordinate Debt Service for each Fiscal Year in which the Series 2007 Notes are Outstanding after the incurrence of the Refunding Obligations will not exceed the sum of Senior Debt Service and Subordinate Debt Service for such Fiscal Years on all Senior Obligations and Subordinate Obligations Outstanding prior to the incurrence of such Refunding Obligations, [and (B) at the time of the incurrence of such Refunding Obligations a certificate of an Authorized City Representative shall be delivered showing that the sum of Senior Debt Service and Subordinate Debt Service for all remaining Fiscal Years on all Senior Obligations and Subordinate Obligations Outstanding after the incurrence of the Refunding Obligations will not exceed the sum of Senior Debt Service and Subordinate Debt Service for all remaining Fiscal Years on all Senior Obligations and Subordinate Obligations Outstanding prior to the incurrence of such Refunding Obligations]; and (ii) additional Subordinate Obligations in an aggregate principal amount of not more than \$75,000,000 the proceeds of which are applied to the Wastewater System capital improvement program and the costs related thereto, provided no such additional Subordinate Obligations shall have a maturity or redemption date prior to the day following the maturity or redemption of the Series 2007 Notes. In addition, notwithstanding anything to the contrary herein, the City shall not incur any MIPA Subordinated Obligation for any purpose whatsoever.

(b) Notwithstanding anything to the contrary herein, so long as any Series 2007 Notes are Outstanding, the City shall only incur New Senior Obligations if the instrument governing such New Senior Obligations contains provisions substantially the same in all material respects as Section 3.3, Article V, Article VI, Section 8.1, Section 8.2 and Section 8.3 hereof, which provisions shall be effective so long as the Series 2007 Notes are Outstanding.

Section 5.6. Investments. All moneys held by the City in the Revenue Fund shall be invested in Permitted Investments and the investment earnings thereon shall remain on deposit in such fund, except as otherwise provided herein.

ARTICLE VI

COVENANTS OF THE CITY

Section 6.1. Compliance with Subordinate Installment Purchase Agreement and Ancillary Agreements. The City will punctually pay the Subordinate Installment Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate this Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained herein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected herewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo,

strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

It is expressly understood and agreed by and among the parties to this Agreement that, subject to Section 10.6 hereof, each of the agreements, conditions, covenants and terms contained in this Agreement is an essential and material term of the purchase of and payment for the Project by the City pursuant to, and in accordance with, and as authorized under the law.

The City will faithfully observe and perform all the agreements, conditions, covenants and terms required to be observed and performed by it pursuant to all outstanding Subordinate Contracts and Subordinate Bonds as such may from time to time be executed or issued, as the case may be.

Section 6.2. Against Encumbrances. The City will not make any pledge of or place any lien on System Revenues, Net System Revenues or Net Subordinate Revenues or the moneys in the Revenue Fund except as permitted hereby. Subject to Section 5.5 hereof, the City may at any time, or from time to time, (i) incur Subordinate Obligations as permitted by Section 5.03 hereof, (ii) incur Senior Obligations as permitted by Section 5.4 hereof or (iii) issue or incur evidences of indebtedness or incur other obligations, provided that such pledge and lien shall be subordinate in all respects to the pledge of and lien thereon provided herein.

Section 6.3. Against Sale or Other Disposition of Property. So long as any Series 2007 Notes remain Outstanding the City will not enter into any agreement or lease which impairs the operation of the Wastewater System or any part thereof necessary to secure adequate Net Subordinate Revenues to meet the requirements of this Agreement, or which would otherwise impair the rights of the Authority hereunder or the operation of the Wastewater System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Wastewater System, or any material or equipment which has become worn out, may be sold or otherwise disposed of if such sale or disposal will not impair the ability of the City to pay the Subordinate Installment Payments and if the proceeds of such sale are deposited in the Revenue Fund.

Subject to Section 5.5 hereof, nothing herein shall restrict the ability of the City to sell any portion of the Wastewater System if such portion is immediately repurchased by the City and if such arrangement cannot by its terms result in the purchaser of such portion of the Wastewater System exercising any remedy which would deprive the City of or otherwise interfere with its right to own and operate such portion of the Wastewater System.

Section 6.4. Against Competitive Facilities. To the extent that it can so legally obligate itself, the City covenants that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the City any system competitive with the Wastewater System.

Section 6.5. Tax Covenants. Notwithstanding any other provision of this Agreement, absent an opinion of Bond Counsel that the exclusion from gross income of interest with respect to the Series 2007 Notes will not be adversely affected for federal income tax purposes, the City and the Authority covenant to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The City and the Authority will not take or omit to take any action or make any use of the proceeds of the Series 2007 Notes or of any other moneys or property which would cause the Series 2007 Notes to be "private activity bonds" within the meaning of Section 141 of the Code.

(b) Arbitrage. The City and the Authority will make no use of the proceeds of the Series 2007 Notes or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the Series 2007 Notes to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(c) Federal Guarantee. The City and the Authority will make no use of the proceeds of the Series 2007 Notes or take or omit to take any action that would cause the Series 2007 Notes to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(d) Information Reporting. The City or the Authority will take or cause to be taken all necessary action to comply with the informational reporting requirements of Section 149(e) of the Code.

(e) Miscellaneous. The City and the Authority will take no action inconsistent with the expectations stated in any Tax Certificate executed with respect to the Series 2007 Notes and will comply with the covenants and requirements stated therein and incorporated by reference herein.

Section 6.6. Operation and Maintenance of the Wastewater System. The City will maintain and preserve the Wastewater System in good repair and working order at all times and will operate the Wastewater System in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

Section 6.7. Payment of Claims. The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the System Revenues or the funds or accounts created hereunder or on any funds in the hands of the City pledged to pay the Subordinate Installment Payments or to the Owners prior or superior to the lien of the Subordinate Installment Payments or which might impair the security of the Subordinate Installment Payments.

Section 6.8. Compliance with Contracts. The City will neither take nor omit to take any action under any contract if the effect of such act or failure to act would in any manner impair or adversely affect the ability of the City to secure adequate Net Subordinate Revenues to meet the requirements of this Agreement; and the City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all other contracts affecting or involving the Wastewater System, to the extent that the City is a party thereto.

Section 6.9. Insurance.

(a) The City will procure and maintain or cause to be procured and maintained insurance on the Wastewater System with responsible insurers, or provide self insurance reserves, in such amounts and against such risks (including damage to or destruction of the Wastewater System)

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as are usually covered in connection with wastewater systems similar to the Wastewater System so long as such insurance is available from reputable insurance companies.

In the event of any damage to or destruction of the Wastewater System caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Wastewater System. The City shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Wastewater System shall be free and clear of all claims and liens unless the City determines that such property or facility is not necessary to the efficient or proper operation of the Wastewater System and therefore determines not to reconstruct, repair or replace such property or facility.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement portion of the Wastewater System, and/or the cost of the construction of additions, betterments, extensions or improvements to the Wastewater System, then the excess Net Proceeds shall be deposited in the Revenue Fund and be available for other proper uses of funds deposited in the Revenue Fund.

(b) The City will procure and maintain such other insurance as it shall deem advisable or necessary to protect its interests and the interests of the Authority, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with municipal wastewater systems similar to the Wastewater System.

(c) Any insurance maintained pursuant to paragraph (b) above may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with wastewater systems similar to the Wastewater System and is, in the opinion of an accredited actuary, actuarially sound.

All policies of insurance required to be maintained herein shall provide that the Authority and the Trustee shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Section 6.10. Accounting Records; Financial Statements and Other Reports. The City will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Wastewater System, which records shall be available for inspection by the Authority, including agents and assignees of and lenders to the Authority and the Trustee at reasonable hours and under reasonable conditions.

Section 6.11. Protection of Security and Rights of the Authority. The City will preserve and protect the security hereof and the rights of the Authority and the assignee thereof to the Subordinate Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

Section 6.12. Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Wastewater System, or any part thereof or upon the System Revenues, Net System Revenues or Net Subordinate Revenues when the same shall become due. The City will duly observe and conform with all valid regulations and requirements of any

governmental authority relative to the operation of the Wastewater System, or any part thereof, but the City shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Section 6.13. Amount of Rates and Charges; Rate Stabilization Fund. (a) To the fullest extent permitted by law, the City shall fix, prescribe and collect rates and charges with respect to the Wastewater System which will be at least sufficient to yield during each Fiscal Year Net Subordinate Revenues, minus the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for Senior Obligations, equal to one hundred percent (100%) of Subordinate Debt Service computed for such Fiscal Year under the definition of Subordinate Debt Service herein. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Subordinate Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of this section.

(b) The City may establish or continue, as a fund within the Revenue Fund, a fund denominated the Rate Stabilization Fund. From time to time the City may deposit into the Rate Stabilization Fund, from Net Subordinate Revenues remaining after payment of all Subordinate Debt Service due during the current Fiscal Year has been made or provided for, such amounts as the City shall determine and the amount of available current System Revenues shall be reduced by the amount so transferred. Amounts may be transferred from the Rate Stabilization Fund and deposited in the Revenue Fund solely and exclusively to pay Operation and Maintenance Costs or capital improvement project costs of the Wastewater System, and any amounts so transferred shall be deemed System Revenues in the Fiscal Year so transferred. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom, deposited in the Revenue Fund and accounted for as System Revenues.

Section 6.14. Collection of Rates and Charges. The City will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Wastewater System and providing for the billing thereof and for a due date and a delinquency date for each bill.

Section 6.15. Eminent Domain Proceeds. If all or any part of the Wastewater System shall be taken by eminent domain proceedings, the Net Proceeds shall be applied to the replacement of the property or facilities so taken, unless the City determines that such property or facility is not necessary to the efficient or proper operation of the Wastewater System and therefore determines not to replace such property or facility. Any Net Proceeds of such award not applied to replacement or remaining after such work has been completed shall be deposited in the Revenue Fund and be available for other proper uses of funds deposited in the Revenue Fund.

Section 6.16. Further Assurances. The City will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Authority and the assignee thereof the rights and benefits provided to it herein.

Section 6.17. Enforcement of Contracts. The City will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with any contracts previously or hereafter entered into if such rescission or

amendment would in any manner impair or adversely affect the ability of the City to secure adequate Net Subordinate Revenues to meet the requirements of this Agreement.

ARTICLE VII

PREPAYMENT OF SUBORDINATE INSTALLMENT PAYMENTS

Section 7.1. Prepayment.

(a) The City may or shall, as the case may be, prepay from the Net Proceeds as provided herein on any date all or any part of the principal amount of the unpaid Subordinate Installment Payments at a prepayment price equal to the sum of the principal amount prepaid plus accrued interest thereon to the date of prepayment.

(b) The City may optionally prepay the Subordinate Installment Payments in accordance with Section 4.01 of the Indenture.

Notwithstanding any such prepayment, the City shall not be relieved of its obligations hereunder, including its obligations under Article IV, until the Purchase Price shall have been fully paid (or provision for payment thereof shall have been provided to the written satisfaction of the Authority).

Section 7.2. Method of Prepayment. Before making any prepayment pursuant to Section 7.1(a), the City may, within thirty (30) days following the event permitting the exercise of such right to prepay or creating such obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment of the Series 2007 Notes will be paid, which date shall be not less than forty-five (45) days from the date such notice is given, unless such prepayment must occur on an Interest Payment Date, in which case such date shall be the next Interest Payment Date with respect to which notice of prepayment may be timely given pursuant to the Indenture.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

Section 8.1. Events of Default and Acceleration of Maturity. If one or more of the following Events of Default shall happen, that is to say --

(a) if default shall be made by the City in the due and punctual payment of any Subordinate Installment Payment or any Subordinate Obligation when and as the same shall become due and payable;

(b) if default shall be made by the City in the performance of any of the other agreements or covenants required herein or in any Subordinate Obligation to be performed by it, and such default shall have continued for a period of sixty (60) days after the City shall have been given notice in writing of such default by the Authority;

(c) if the City shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with

or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property; or

(d) if payment of the principal of any Subordinate Obligation or any Senior Obligation is accelerated in accordance with its terms;

then and in each and every such case during the continuance of such Event of Default specified in clauses (c) and (d) above, the Authority shall, and for any other such Event of Default the Authority may, and in each and every such case the Authority, at the written direction of the Beneficial Owners of 51% of the Series 2007 Notes by notice in writing to the City, shall declare the entire principal amount of the unpaid Subordinate Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding. This subsection however, is subject to the condition that if at any time after the entire principal amount of the unpaid Subordinate Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the City shall deposit with the Authority a sum sufficient to pay the unpaid principal amount of the Subordinate Installment Payments and/or the unpaid payment of any other Subordinate Obligation referred to in clause (a) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Subordinate Installment Payments or such Subordinate Obligation if paid in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Subordinate Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate shall have been made therefor, then and in every such case the Authority, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Section 8.2. Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided in Section 8.1, all Net System Revenues thereafter received shall be applied in the following order -

First, to the payment, without preference or priority, and in the event of any insufficiency of such Net System Revenues ratably without any discrimination or preference, of the fees, costs and expenses of the Authority and Trustee, if any, including reasonable compensation to its accountants and counsel;

Second, to the payment of Operation and Maintenance Costs;

Third, to the payment of debt service with respect to the Senior Obligations, if any, in accordance with the terms thereof; and

Fourth, to the payment of the entire principal amount of the unpaid Subordinate Installment Payments and the unpaid principal amount of all Subordinate Obligations and the accrued interest

thereon, with interest on the overdue installments at the rate or rates of interest applicable to the Subordinate Installment Payments and such Subordinate Obligations if paid in accordance with their respective terms.

Section 8.3. Other Remedies of the Authority. The Authority shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the City or any director, officer or employee thereof, and to compel the City or any such director, officer or employee to perform and carry out its or his duties under the law and the agreements and covenants required to be performed by it or him contained herein; or

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority.

Notwithstanding anything contained herein, the Authority shall have no security interest in or mortgage on the Project, the Wastewater System or other assets of the City, and no default hereunder shall result in the loss of the Project, the Wastewater System or other assets of the City.

Section 8.4. Non-Waiver. Nothing in this article or in any other provision hereof shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the Subordinate Installment Payments to the Authority at the respective due dates or upon prepayment from the Net Subordinate Revenues, the Revenue Fund, the Rate Stabilization Fund and the other funds herein pledged for such payment, or shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

A waiver of any default or breach of duty or contract by the Authority shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Authority by the law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Authority, the City and the Authority shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Section 8.5. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the law.

If any remedial action is discontinued or abandoned, the Trustee and Series 2007 Note Owners shall be restored to their former positions.

ARTICLE IX

DISCHARGE OF OBLIGATIONS

Section 9.1. Discharge of Obligations.

(a) When all or any portion of the Subordinate Installment Payments shall have become due and payable in accordance herewith or a written notice of the City to prepay all or any portion of the Subordinate Installment Payments shall have been filed with the Trustee; and

(b) there shall have been deposited with the Trustee at or prior to the Subordinate Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Subordinate Installment Payments, sufficient moneys and non-callable Permitted Investments, issued by the United States of America, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Subordinate Installment Payments to their respective Subordinate Installment Payment Dates or prepayment date or dates as the case may be; and

(c) provision shall have been made for paying all fees and expenses of the Trustee,

then and in that event, if an opinion of Bond Counsel acceptable to the Trustee is filed with the Trustee to the effect that the actions authorized by and taken pursuant to this Article IX shall not adversely affect the exclusion from gross income for federal income tax purposes of the interest portion of the Subordinate Installment Payments, the right, title and interest of the Authority herein and the obligations of the City hereunder shall, with respect to all or such portion of the Subordinate Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the City to have such moneys and such Permitted Investments applied to the payment of such Subordinate Installment Payments).

In such event, upon request of the City the Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee shall pay over to the City, after payment of all amounts due the Trustee pursuant to the Indenture as an overpayment of Subordinate Installment Payments, all such moneys or such Permitted Investments held by it pursuant hereto other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Subordinate Installment Payments, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of the Subordinate Installment Payments and shall be applied by the Trustee to the payment of the Subordinate Installment Payments of the City.

ARTICLE X

MISCELLANEOUS

Section 10.1. Liability of City Limited to Net Subordinate Revenues. The obligation of the City to make the Subordinate Installment Payments is a special obligation of the City payable solely from the Net Subordinate Revenues, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction. Notwithstanding anything contained herein, the City shall not be required to advance any moneys derived from any source of income other than the Net Subordinate Revenues in the Revenue Fund [and the Rate Stabilization Fund] and the other funds provided herein for the payment of Subordinate Installment Payments due hereunder or for the performance of any agreements or covenants required to be performed by it contained herein except as expressly provided herein. The City may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose.

Section 10.2. Benefits of Subordinate Installment Purchase Agreement Limited to Parties. Nothing contained herein, expressed or implied, is intended to give to any person other than the City or the Authority any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the City or the Authority shall be for the sole and exclusive benefit of the other party.

Section 10.3. Successor Is Deemed Included in all References to Predecessor. Whenever either the City or the Authority is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the City or the Authority, and all agreements and covenants required hereby to be performed by or on behalf of the City or the Authority shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 10.4. Waiver of Personal Liability. No public official, director, commissioner, officer or employee of the City shall be individually or personally liable for the payment of the Subordinate Installment Payments, but nothing contained herein shall relieve any officer or employee of the City from the performance of any official duty provided by any applicable provisions of law or hereby.

Section 10.5. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words "hereby," "herein," "hereof," "hereto," "herewith" and other words of similar import refer to this Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

Section 10.6. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the City or the Authority shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements

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and covenants or portions thereof and shall in no way affect the validity hereof. The City and the Authority hereby declare that they would have executed this Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 10.7. Assignment. This Agreement and any rights hereunder may be assigned by the Authority, as a whole or in part, without the necessity of obtaining the prior consent of the City.

Section 10.8. Net Contract. This Agreement shall be deemed and construed to be a net contract, and the City shall pay absolutely net during the term hereof the Subordinate Installment Payments and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

Section 10.9. California Law. THE SUBORDINATE INSTALLMENT PURCHASE AGREEMENT SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

Section 10.10. Notices. All written notices to be given hereunder shall be given by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time, namely:

If to the City: City of San Diego
Debt Management
City Administration Building
202 C Street, Mail Station 7B
San Diego, California 92101
Attention: Wastewater Analyst

If to the Authority: Public Facilities Financing Authority of the City of San Diego
c/o City of San Diego
Debt Management
City Administrative Building
202 C Street, Mail Station 7B
San Diego, California 92101
Attention: Debt Management Director

Section 10.11. Effective Date. This Agreement shall become effective upon its execution and delivery, and shall terminate when the Purchase Price shall have been fully paid (or provision for the payment thereof shall have been made to the written satisfaction of the Authority).

Section 10.12. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

Section 10.13. Indemnification of Authority. The City hereby agrees to indemnify and hold harmless the Authority and each of its commissioners, officers, members, and employees if

and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of its duties hereunder and under the Indenture; provided that no indemnification will be made for willful misconduct, negligence or breach of an obligation hereunder or under the Indenture by the Authority or any of its commissioners, officers, members, and employees.

Section 10.14. Amendments Permitted. This Agreement and the rights and obligations of the Authority, the City, the Owners of the Series 2007 Notes and of the Trustee may be modified or amended at any time by an amendment hereto which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Series 2007 Notes then Outstanding, exclusive of Series 2007 disqualified as provided in the Indenture, shall have been filed with the Trustee. No such modification or amendment shall (1) extend the stated maturities of the Series 2007 Notes, or reduce the rate of interest represented thereby, or change the method of computing the rate of interest with respect thereto, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof, without the consent of the Owner of any Series 2007 Note so affected, or (2) reduce the aforesaid percentage of Owners of Series 2007 Notes whose consent is required for the execution of any amendment or modification of this Agreement without the consent of the Owners of all Series 2007 Notes then Outstanding, or (3) modify any of the rights or obligations of the Trustee or the Authority without its respective written consent thereto.

This Agreement and the rights and obligations of the Authority, the City and of the Owners of the Series 2007 Notes may also be modified or amended at any time by an amendment hereto which shall become binding upon adoption, without the consent of the Owners of any Series 2007 Notes but only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Authority or the City contained in this Agreement other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the Authority or the City, and which shall not adversely affect the interests of the Owners of the Series 2007 Notes; and

(b) to cure, correct or supplement any ambiguous or defective provision contained in this Agreement or in regard to questions arising under this Agreement, as the Authority or the City may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the Series 2007 Notes.

No amendment without consent of the Owners may modify any of the rights or obligations of the Trustee without its written consent thereto.

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IN WITNESS WHEREOF, the parties hereto have executed and attested this Agreement by their officers thereunto duly authorized as of the day and year first written above.

CITY OF SAN DIEGO

ATTEST:

By: _____
Chief Financial Officer

By: _____
City Clerk

APPROVED AS TO FORM AND LEGALITY:

MICHAEL J. AGUIRRE, City Attorney

By: _____
Mark D. Blake
Chief Deputy City Attorney

PUBLIC FACILITIES FINANCING
AUTHORITY OF THE CITY OF SAN
DIEGO

By: _____
Chair

ATTEST:

By: _____
Secretary

APPROVED AS TO FORM AND LEGALITY:

MICHAEL J. AGUIRRE, General Counsel

By: _____
Mark D. Blake
Deputy General Counsel

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EXHIBIT A

PURCHASE PRICE

1. The principal amount of payments to be made by the City hereunder is \$_____.

2. The installment payments of principal are payable in the amounts and on the Subordinate Installment Payment Dates as follows:

<i>Subordinate Installment Payment Date</i>	<i>Amount Attributable to Principal</i>	<i>Amount Attributable to Interest</i>	<i>Total</i>
_____	_____	_____	_____

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EXHIBIT B

DESCRIPTION OF THE PROJECT

The 2004 Project Components consist of: See Attached

The 2007 Project Components consist of: See Attached

2004 Project Components

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MUNI FUND 41506		
461955	Alvarado Trunk Sewer - Phase III (46-194.0 AA)	\$96,641.00
461966	Balboa Trunk Sewer	\$277,845.00
442139	Cather/Florey Sewer (44-001.0 AA)	\$19,073.00
409102	Chollas Valley Trunk Sewer	\$5,687,546.00
466042	Cottontail Canyon Sewer Pump Station (46-106.0 AA)	\$23,764.00
461959	Crown Point Trunk Sewer (46-194.0 AA)	\$24,212.00
442158	Del Rey St. 30" Sewer Main (44-001.0 AA)	\$219,226.00
461621	East Linda Vista Trunk Sewer Ph II (SUB OF 461620)	\$2,264,299.00
409204	East Mission Gorge Trunk Sewer Rehab	\$16,938.00
443140	Group Job 722 (44-001.0 AA)	\$1,222,222.00
443141	Group Job 723 (44-001.0 AA)	\$77,290.00
462050	Harbor Drive Trunk Sewer	\$311,302.00
461392	Home Avenue Trunk Sewer Contract III	\$14,445.00
419273	Install Electronic Gates @ EMG & Penas PS (41-927.0 AA)	\$118,667.00
442186	La Jolla Shores/Ardath Road (44-001.0 AA)	\$1,027,134.00
461942	La Jolla/Pacific Beach TS - Chelsea St. Reloc.	\$5,836,890.00
461979	Lake Murray In Canyon Trunk Sewer	\$628,123.00
461943	Lake Murray Trunk Sewer (46-194.0 AA)	\$24,066.00
461957	Lexington Trunk Sewer (40-933.0 Sub)	\$1,509,093.00
461958	Miramar Road Trunk Sewer	\$179,779.00
461961	MOC I Office Improv (46-196.0 sublet)	\$258,060.00
461963	MOC VI Storage for WWC (46-196.0 sublet)	\$31,983.00
409300	Otay Mesa Trunk Sewer	\$5,244,545.00
461981	Pacific Beach- La Jolla Trunk Sewer #3 (46-194.0 AA)	\$20,525.00
465060	Pipeline Rehabilitation In The R.O.W. - Phase A	\$14,175,688.00
461947	Powderhouse Canyon Trunk Sewer (46-194.0 AA)	\$74,689.00
419351	PS 64 Bleach Tank Replacement (41-927.0 AA)	\$41,455.00
419276	PS 64 Pumps Design Mod Phase I (41-927.0 AA)	\$57,078.00
419283	PS 65 Auto Trfr Switch (41-927.0 AA)	\$155,091.00
461170	Pump Station 65 Expansion and Force Main	\$992.00
419284	Removal 2nd Stage Pump @ Penas (41-927.0 AA)	\$28,320.00
419285	Screens Design Repl PS 64 65 PQ(41-927.0 AA)	\$64,477.00
441050	Sewer & Water Group 090 (44-001.0 AA)	\$8,676.00
443096	Sewer & Water Group 640 (44-001.0 AA)	\$3,403,274.00
441082	Sewer & Water Group 649 (44-001.0 AA)	\$19,355.00
441084	Sewer & Water Group 651 (44-001.0 AA)	\$2,465,145.00

2004 Project Components

441085	Sewer & Water Group 652 (44-001.0 AA)	\$404,824.00
441096	Sewer & Water Group 663 (44-001.0 AA)	\$368,414.00
441097	Sewer & Water Group 664 (44-001.0 AA)	\$18,608.00
442101	Sewer & Water Group 667 (44-001.0 AA)	\$712,312.00
442102	Sewer & Water Group 668 (44-001.0 AA)	\$15,847.00
442113	Sewer & Water Group 673 (44-001.0 AA)	\$207,824.00
442132	Sewer & Water Group 676 (44-001.0 AA)	\$52,198.00
442136	Sewer & Water Group 680 (44-001.0 AA)	\$2,963,417.00
442135	Sewer & Water Group 681 (44-001.0 AA)	\$148,622.00
442129	Sewer & Water Group 682 (44-001.0 AA)	\$83,900.00
442149	Sewer & Water Group 683 (44-001.0 AA)	\$1,749,254.00
442150	Sewer & Water Group 684 (44-001.0 AA)	\$10,904.00
442152	Sewer & Water Group 686 (44-001.0 AA)	\$344,706.00
442156	Sewer & Water Group 688 (44-001.0 AA)	\$1,303,600.00
442155	Sewer & Water Group 690 (44-001.0 AA)	\$1,167,352.00
442214	Sewer & Water Group 756 (44-001.0 AA)	\$3,793.00
442215	Sewer & Water Group 757 (44-001.0 AA)	\$11,683.00
442216	Sewer & Water Group 758 (44-001.0 AA)	\$29,535.00
442219	Sewer & Water Group 760 (44-001.0 AA)	\$10,102.00
442206	Sewer & Water Group Job 687A (44-001.0 AA)	\$7,088.00
442207	Sewer & Water Group Job 738 (44-001.0 AA)	\$15,851.00
442203	Sewer & Water Group Job 747 (44-001.0 AA)	\$184,061.00
442211	Sewer & Water Group Job 752 (44-001.0 AA)	\$36,144.00
442212	Sewer & Water Group Job 753 (44-001.0 AA)	\$113,411.00
442213	Sewer & Water Group Job 754 (44-001.0 AA)	\$131,064.00
442225	Sewer & Water Group Job 761 (44-001.0 AA)	\$126,395.00
442227	Sewer & Water Group Job 763 (44-001.0 AA)	\$115,344.00
442221	Sewer & Water Group Job 764 (44-001.0 AA)	\$37,774.00
442240	Sewer & Water Group Job 764A (44-001.0 AA)	\$90,654.00
442222	Sewer & Water Group Job 765 (44-001.0 AA)	\$66,755.00
442228	Sewer & Water Group Job 766 (44-001.0 AA)	\$261,070.00
442247	Sewer & Water Group Job 774 (44-001.0 AA)	\$82,891.00
442248	Sewer & Water Group Job 775 (44-001.0 AA)	\$53,411.00
442250	Sewer & Water Group Job 778 (44-001.0 AA)	\$32,571.00
442241	Sewer & Water Group Job 789 (44-001.0 AA)	\$41,752.00
443119	Sewer Group 539 (44-001.0 AA)	\$2,702,189.00
443062	Sewer Group 619 (44-001.0 AA)	\$444,317.00
442173	Sewer Group 623B (44-001.0 AA)	\$3,101,543.00

2004 Project Components

443098	Sewer Group 626A (44-001.0 AA)	\$536,441.00
442142	Sewer Group 627B (44-001.0 AA)	\$509,310.00
443097	Sewer Group 632 (44-001.0 AA)	\$2,240,093.00
442106	Sewer Group 633 (44-001.0 AA)	\$876,749.00
442171	Sewer Group 634B (44-001.0 AA)	\$1,787,553.00
441079	Sewer Group 653 (44-001.0 AA)	\$1,312,530.00
441098	Sewer Group 665 (44-001.0 AA)	\$8,071.00
442105	Sewer Group 670 (44-001.0 AA)	\$636,328.00
442112	Sewer Group 672 (44-001.0 AA)	\$859,170.00
442130	Sewer Group 677 (44-001.0 AA)	\$282,216.00
442151	Sewer Group 685 (44-001.0 AA)	\$7,228.00
442154	Sewer Group 687 (44-001.0 AA)	\$7,295.00
442157	Sewer Group 689 (44-001.0 AA)	\$31,091.00
443101	Sewer Group 691 (44-001.0 AA)	\$61,148.00
443102	Sewer Group 692 (44-001.0 AA)	\$1,886,817.00
443103	Sewer Group 693 (44-001.0 AA)	\$8,754.00
443105	Sewer Group 695 (44-001.0 AA)	\$5,824.00
443107	Sewer Group 697 (44-001.0 AA)	\$663,850.00
442192	Sewer Group 697A (44-001.0 AA)	\$3,446.00
443108	Sewer Group 698 (44-001.0 AA)	\$8,325.00
443109	Sewer Group 699 (44-001.0 AA)	\$824,466.00
443110	Sewer Group 700 (44-001.0 AA)	\$609,693.00
443112	Sewer Group 702 (44-001.0 AA)	\$350,427.00
443114	Sewer Group 704 (44-001.0 AA)	\$1,059,680.00
443116	Sewer Group 706 (44-001.0 AA)	\$715,086.00
443117	Sewer Group 707 (44-001.0 AA)	\$2,332,836.00
443118	Sewer Group 708 (44-001.0 AA)	\$609.00
443122	Sewer Group 714 (44-001.0 AA)	\$1,802.00
443123	Sewer Group 715 (44-001.0 AA)	\$15,763.00
443124	Sewer Group 716 (44-001.0 AA)	\$20,700.00
443130	Sewer Group 718 (44-001.0 AA)	\$659,106.00
443106	Sewer Group 725 (44-001.0 AA)	\$4,151.00
442194	Sewer Group 740 (44-001.0 AA)	\$19,459.00
442196	Sewer Group 741 (44-001.0 AA)	\$42,672.00
442229	Sewer Group 900 (44-001.0 AA)	\$33,229.00
442230	Sewer Group 901 (44-001.0 AA)	\$274,078.00
442231	Sewer Group 902 (44-001.0 AA)	\$153,577.00
442232	Sewer Group 903 (44-001.0 AA)	\$337,898.00

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2004 Project Components

442233	Sewer Group 904 (44-001.0 AA)	\$305,754.00
442172	Sewer Group Job 683A (44-001.0 AA)	\$20,564.00
443131	Sewer Group Job 719 (44-001.0 AA)	\$2,392,208.00
442178	Sewer Group Job 726 (44-001.0 AA)	\$66,634.00
442179	Sewer Group Job 727 (44-001.0 AA)	\$78,478.00
442180	Sewer Group Job 728 (44-001.0 AA)	\$69,587.00
442181	Sewer Group Job 729 (44-001.0 AA)	\$38,990.00
442183	Sewer Group Job 731 (44-001.0 AA)	\$15,858.00
442190	Sewer Group Job 735 (44-001.0 AA)	\$78,686.00
442191	Sewer Group Job 737 (44-001.0 AA)	\$301,531.00
442198	Sewer Group Job 742 (44-001.0 AA)	\$218,720.00
442235	Sewer Group Job 742A (44-001.0 AA)	\$8,421.00
442199	Sewer Group Job 743 (44-001.0 AA)	\$200,544.00
442200	Sewer Group Job 744 (44-001.0 AA)	\$1,311,062.00
442201	Sewer Group Job 745 (44-001.0 AA)	\$404,232.00
442202	Sewer Group Job 746 (44-001.0 AA)	\$189,288.00
442236	Sewer Group Job 747A (44-001.0 AA)	\$1,461,467.00
442204	Sewer Group Job 748 (44-001.0 AA)	\$314,826.00
442205	Sewer Group Job 749 (44-001.0 AA)	\$224,186.00
442209	Sewer Group Job 750 (44-001.0 AA)	\$132,647.00
442210	Sewer Group Job 751 (44-001.0 AA)	\$157,475.00
442226	Sewer Group Job 762 (44-001.0 AA)	\$206,923.00
442223	Sewer Group Job 767 (44-001.0 AA)	\$111,753.00
442224	Sewer Group Job 768 (44-001.0 AA)	\$274,800.00
442249	Sewer Group Job 776 (44-001.0 AA)	\$25,982.00
442187	Sewer Main Replacement Group 545 (44-001.0 AA)	\$27,792.00
443059	Sewer Main Replacement Group 616 (44-001.0 AA)	\$2,460,254.00
466024	Sewer Pump Station 08 (SY) (46-106.0 AA)	\$513,742.00
466018	Sewer Pump Station 18 Rehab & Repl (46-106.0 AA)	\$905,789.00
466019	Sewer Pump Station 19 Rehab & Repl (46-106.0 AA)	\$2,220,561.00
466021	Sewer Pump Station 21 Rehab (46-106.0 AA)	\$1,535,666.00
461420	Sewer Pump Station 24	\$295,929.00
466041	Sewer Pump Station 25 to 40 Upgrades (46-106.0 AA)	\$1,320,685.00
466013	Sewer Pump Station 27 Restoration (46-106.0 AA)	\$2,195,455.00
462000	Sewer Pump Station 30A Relocation	\$2,832,548.00
466038	Sewer Pump Station 3-23 (46-106.0 AA)	\$813,879.00
466027	Sewer Pump Station 34 (46-106.0 AA)	\$2,416,202.00
466023	Sewer Pump Station 35 (46-106.0 AA)	\$769,093.00

000192

2004 Project Components

000193

466028	Sewer Pump Station 36 (46-106.0 AA)	\$750,376.00
466031	Sewer Pump Station 39 (46-106.0 AA)	\$278,416.00
466020	Sewer Pump Station 41 Rehab (46-106.0 AA)	\$286,739.00
466036	Sewer Pump Station 42 (46-106.0 AA)	\$1,711,908.00
466016	Sewer Pump Station 45 (46-106.0 AA)	\$7,569,095.00
466030	Sewer Pump Station 49 (46-106.0 AA)	\$310,645.00
466037	Sewer Pump Station 50 (46-106.0 AA)	\$974,618.00
466034	Sewer Pump Station 52, 53, 55, 56, 58 (46-106.0 AA)	\$15,885.00
466032	Sewer Pump Station 59 (46-106.0 AA)	\$713,264.00
466025	Sewer Pump Station 6 & 7 (46-106.0 AA)	\$79,524.00
466001	Sewer Pump Station 61 (46-106.0 AA)	\$92,627.00
466040	Sewer Pump Station 63 (46-106.0 AA)	\$104,325.00
466029	Sewer Pump Station 68 (46-106.0 AA)	\$528,248.00
466010	Sewer Pump Station 77 (46-106.0 AA)	\$726,332.00
461970	Sorrento Valley Trunk Sewer Relocation	\$614,095.00
459460	South Bay Reclaimed Water Storage Tank	\$283,682.00
409280	South Pacific Highway Trunk Sewer	\$1,859,587.00
409281	South Pacific Highway Trunk Sewer Ph II	\$2,299,685.00
419278	Standby Electrical Power System (41-927.0 AA)	\$144,006.00
461975	Sunset Cliffs Trunk Sewer (46-194.0 AA)	\$40,091.00
461680	Telemetry Control Systems - SCADA	\$1,597,572.00
466022	Torrey Pines Road (46-106.0 AA)	\$153,806.00
461980	UCSD Trunk Sewer	\$34,470.00
461976	USIU Trunk Sewer	\$825,045.00
419281	Value Eng for PS 64 65 Penas & EMG (41-927.0 AA)	\$13,246.00
419289	Value Engineering for PS 64 (41-927.0 AA)	\$62,511.00
443058	Water & Sewer Group 516 (44-001.0 AA)	\$221,216.00
442189	Water and Sewer Group Job 544 (44-001.0 AA)	\$5,005.00
TOTAL MUNI BOND FUNDED		\$131,280,789.00

METRO FUND 41508

461927	84-inch Penstock Improvements (46-119.0 AA)	\$42,246.00
461931	Bin Storage & Truck Wash (46-119.0 AA)	\$104,558.00
461921	Concrete Restoration of Sedimentation Basins 9-12 (46-119.0 AA)	\$134,676.00
461934	FIRP Phase B, C & D Cathodic Protection (46-119.0 AA)	\$175,966.00
461812	Force Main 1 Inspection & Repair Ph 3 (46-181.0 sublet)	\$1,001,764.00
461929	Gas Utilization Facility (46-119.0 AA)	\$392,630.00

2004 Project Components

000194

461932	Hydro Road Stormwater (46-119.0 AA).	\$32,520.00
461939	Lower Hydro Road Piping (46-119.0 AA)	\$49,362.00
459420	METROPOLITAN OPERATIONS CENTER EXPAN - PH II	\$16,719.00
409220	METROPOLITAN OPERATIONS CENTER EXPAN(MOC III)	\$192,365.00
461937	NEOC Slide Gate (46-119.0 AA)	\$76,823.00
461040	NORTH METRO INTERCEPTOR	\$533,889.00
461925	Odor Control Scrubber Fans (46-119.0 AA)	\$59,175.00
461820	POINT LOMA - CHEMICAL FEED SYSTEMS UPGRADE	\$45,671.00
459430	POINT LOMA - GRIT PROCESSING IMPRV PROJECT	\$245,154.00
461938	Point Loma Concrete Work (46-119.0 AA)	\$22,353.00
461100	POINT LOMA-SCUM REMOVAL SYSTEM	\$9,000.00
459370	POINT LOMA-SITE IMPROVEMENTS	\$1,468.00
461750	PT. LOMA -HDWRKS, ODOR C. & GRIT PROC. FAC.	\$28,526.00
461790	PT. LOMA -POWER GENERATION & DIST. UPGRADE	\$237,307.00
461801	Pt. Loma Admin Bldg Interior Improv.(46-180.0 sublet)	\$17,106.00
466006	Pump Station 1 Electrical Upgrade (46-119.0 AA)	\$143.00
461924	Skyroom & MCC Rooms HVAC Upgrades (46-119.0 AA)	\$104,399.00
459410	SOUTH METRO DOWNTOWN TUNNEL REHAB	\$1,864,977.00
459110	SOUTH METRO SEWER REHAB. AND RELIEF	\$482.00
461928	Submersible Actuator Replacement (46-119.0 AA)	\$4.00

TOTAL METRO FUND 41508 BOND FUNDED

\$5,389,283.00

METRO FUND 41509

429145	Carbon Tower Seismic Bracing (42-913.0 AA)	\$22,264.00
419267	Design of PS 1 Sluice Gates (41-926.0 AA)	\$614,072.00
461870	ENVIRON. MONITORING & TECH SVCS LAB PH I	\$0.00
460550	FIRP PUMP STATION	\$5,796.00
429134	MBC Access Road Repair (42-913.0 AA)	\$8,388.00
429146	MBC Clarifier Access Stairs (42-913.0 AA)	\$4,545.00
429159	MBC Dewatering Trf Pumps (42-913.0 AA)	\$1,752.00
429138	MBC Digester Viewport & Cover Plate (42-913.0 AA)	\$1,035.00
429152	MBC Foul Air Duct U-Trap (42-913.0 AA)	\$182,067.00
429148	MBC GTAP (Grit Teacup) Hoist & Fan (42-913.0 AA)	\$56,459.00
429131	MBC Plant Improv Centrifuges/Digesters (42-913.0 AA)	\$500.00
429157	MBC Reclaim Water to Dig Trf Pumps (42-913.0 AA)	\$93,172.00
429158	MBC RW Centrate Cath Prot Ph I (42-913.0 AA)	\$16,570.00
429147	MBC Storm Drain Mods (42-913.0 AA)	\$211,891.00

2004 Project Components

429137	MBC Sump Pumps in Electrical Vaults (42-913.0 AA)	\$2,921.00
429114	METRO BIOSOLIDS CENTER	\$71,616.00
409240	METROPOLITAN OPERATIONS CENTER MOC II BUILD OUT	\$594,246.00
429150	NCWRP PERMANENT DEMINERALIZATION FACILITY, PH I	\$422,753.00
429115	NORTH CITY RAW SL & WATER PIPELINES REVEG SUBLET 429113	\$4,935.00
429113	North City Raw Sludge and Water Pipelines	\$10,865.00
429101	NORTH CITY WATER RECLAMATION PLANT	\$178,461.00
429116	Northern Sludge Process. Facil. Ph II (Sub of 42-911.4)	\$27,461.00
419240	OTAY RIVER PUMP STATION	\$896,808.00
419250	POINT LOMA - 4TH SLUDGE PUMP & OTH MODIFICIATIONS	\$724,055.00
461700	POINT LOMA - DIGESTER FACILITY UPGRADE AND EXP.	\$351,356.00
462180	POINT LOMA - DIGESTERS S1 & S2 UPGRADES	\$1,404,608.00
459600	POINT LOMA - SOUTH ACCESS RD. PROTECTION PJT	\$58,034.00
419302	PS 1 Lighting Upgrade (41-926.0 AA)	\$23,377.00
419262	PS 1 Mod/Repl Rheostats+Spd Ctrl+H2O Cool (41-926.0 AA)	\$161,558.00
419299	PS 1 Screening Rm Linear Imprv (41-926.0 AA)	\$13,564.00
419300	PS 1&2 Fiber Optic (41-926.0 AA)	\$742,722.00
419291	PS 1&2 New Pumps/Actuation Sys Des (41-926.0 AA)	\$35,748.00
419292	PS 1&2 Power Reliability Investigation (41-926.0 AA)	\$269,863.00
419298	PS 1&2 Screens Design & Install (41-926.0 AA)	\$99,356.00
419266	PS 1&2 Sump Pumps/Wetwell Trf Pumps Repl (41-926.0 AA)	\$1,000,062.00
419301	PS 2 - Concrete Work (41-926.0 AA)	\$11,449.00
419269	PS 2 Heat Exchangers Mods (41-926.0 AA)	\$24,545.00
419263	PS 2 Mod/Repl Rheostats+Spd Ctrl+H2O Cool (41-926.0 AA)	\$144,334.00
419261	PS 2 Odor Control Sys Upg & Mod (41-926.0 AA)	\$70,919.00
419296	PS 2 Security Fence, Gates & Sys (41-926.0 AA)	\$25,766.00
419297	PS#1 & 2 DESIGN & INSTALLATION LEVEL INDICATORS (AA 41-926.0)	\$14,223.00
409111	SOUTH BAY PUMP STATION AND CONVEYANCE SYSTEM PHASE 1	\$6,456.00
409113	SOUTH BAY RECLAMATION SEWER AND PUMP STATION	\$45,054.00
429106	SOUTH BAY WATER RECLAMATION PLANT	\$1,398,388.00
409114	SOUTH BAY WATER RECLAMATION SEWERS (40-911.3 sublet)	\$1,405.00
459200	WASTEWATER OPERATIONS MANAGEMENT NETWORK(COMNET)	\$5,159,212.00
TOTAL METRO FUND 41509 BOND FUNDED		\$15,214,631.00

TOTAL METRO BOND FUNDED \$20,603,914.00

BOND FUNDING GRAND TOTAL FOR 2004 ISSUED INTERIM FINANCING AS OF 4/10/2006 \$151,884,703.00

2004 Project Components

Total Metro CIP Bond Requisitions	\$20,603,914.00
Total Muni CIP Bond Requisitions	<u>\$131,280,789.00</u>
Total MWWD CIP Bond Funded	\$151,884,703.00
Cost of Issuance	\$334,329
TOTAL PROCEEDS EXPENDED	\$152,219,032

009196

2007 Project Components

Metropolitan Sewer Funds Estimated Use of 2007 Bond Funds for CIP Projects

009197

	TITLE		Direct	Direct
	Title	Reimbursement of Costs Before April 30, 2007	Bonding for Costs After April 30, 2007	CIP Project Use of Bond Funds

Metro Projects

42-913.0	ANNUAL ALLOCATION - METRO BIOSOLIDS CENTER	\$ 766,318	\$ 134,241	\$ 900,559
45-956.0	ANNUAL ALLOCATION - METRO SYSTEM OPERATIONS CTR	97,766	30,828	128,594
41-926.0	ANNUAL ALLOCATION - METROPOLITAN SYSTEM PUMP STATIONS	1,129,749	1,852,183	2,981,932
42-926.0	ANNUAL ALLOCATION - NORTH CITY WATER RECLAMATION	124,414	230,711	355,125
46-119.0	ANNUAL ALLOCATION - PT. LOMA TREATMENT PLANT & RELATED	693,688	259,391	953,079
45-932.0	ANNUAL ALLOCATION - SOUTH BAY WATER RECLAMATION	68,660	7,257	75,917
46-187.0	ENVIRONMENTAL MONITORING & TECH SERVICES LAB	518,009	-	518,009
45-965.0	ENVIRONMENTAL MONITORING & TECH SERVICES LAB BOAT DOCK	214,907	182,364	397,271
40-921.2	FIRP PH 2- CONNECT. TO CO PLEY DR (SUBLET OF 40-921.0)	132,003	44,001	176,004
41-925.0	FOURTH SLUDGE PUMP AND OTHER MODIFICATIONS	35,334	11,778	47,112
45-984.0	MBC BIOSOLIDS STORAGE SILOS	40,037	16,119	56,156
45-982.0	MBC CENTRATE COLLECTION UPGRADES	-	21,762	21,762
45-989.0	MBC ODOR CONTROL FACILITY UPGRADES	99,192	161,576	260,768
45-981.0	MBC STANDBY CENTRIFUGE FEED FACILITIES	49,355	22,065	71,420
45-991.0	MBC SWITCHGEAR RECONFIGURATION	41,918	-	41,918
45-988.0	MBC WASTEWATER FORCEMAIN EXTENSION	40,971	18,921	59,892
42-911.4	METRO BIOSOLIDS CENTER	50,148	16,716	66,864

2007 Project Components

42-911.6	METRO BIOSOLIDS CENTER (SUBLET OF 42-911.4)	2,943	981	3,924
45-966.0	METRO FACILITIES CONTROL SYSTEM UPGRADE	33,849	238,007	271,856
45-942.0	METROPOLITAN OPERATIONS CENTER EXPANSION PHASE II	3,985	-	3,985
45-942.1	MOC 7 DEMO & PARKING LOT (SUBLET OF 45-942.0)	116,778	9,760	126,538
42-915.0	NCWRP PERMANENT DEMINERALIZATION FACILITY	341,422	5,367	346,789
42-933.0	NCWRP ULTRAFILTRATION & EDR UPGRADE	21,669	24,999	46,668
45-964.0	NORTH CITY RAW SLUDGE / POINT LOMA CATHODIC PROTECTION	34,560	27,288	61,848
41-924.0	OTAY RIVER PUMP STATION	76,934	14,859	91,793
46-170.0	PT. LOMA - DIGESTER FACILITY UPGRADE AND EXP.	70,443	4,680	75,123
46-218.0	PT. LOMA - DIGESTER S1 AND S2 UPGRADES	1,187,619	-	1,187,619
45-943.0	PT. LOMA - GRIT PROCESSING IMPROVEMENTS	1,160,358	565,976	1,726,334
45-960.0	PT. LOMA - S. ACCESS RD PROTECTION PROJ	85,328	28,386	113,714
41-928.0	PUMP STATION 1 & 2 LARGE PUMPS IMPROVEMENT PROJECT	-	273	273
45-915.0	PUMP STATION 2 ONSITE STANDBY POWER	129,077	49,770	178,847
42-930.0	SBWRP DEMINERALIZATION PHASE 1 & 2	45,243	15,081	60,324
40-911.4	SOUTH BAY WATER RECLAMATION SEWERS (SUBLET OF 40-911.3)	31,601	2,055	33,656
45-920.0	WASTEWATER OPERATIONS MANAGEMENT NETWORK (COMNET)	256,515	56,889	313,404
Total Metro		\$ 7,700,793	\$ 4,054,284	\$ 11,755,077

Muni Projects

46-206.0	ANNUAL ALLOCATION - ACCELERATED PROJECTS	\$ 423,334	\$ 76,800	\$ 500,134
40-933.0	ANNUAL ALLOCATION - MWWWD TRUNK SEWERS	880,798	863,051	1,743,849
46-050.0	ANNUAL ALLOCATION - PIPELINE REHABILITATION	4,236,500	11,052,666	15,289,166
41-927.0	ANNUAL ALLOCATION - PS 64, 65, PENASQUITOS, EMG	196,227	136,447	332,674
44-001.0	ANNUAL ALLOCATION - SEWER MAIN REPLACEMENTS	8,937,227	3,312,022	12,249,250
46-106.0	ANNUAL ALLOCATION - SEWER PUMP STATION RESTORATIONS	3,918,368	614,008	4,532,376
46-194.0	ANNUAL ALLOCATION - TRUNK SEWER REHABILITATIONS	485,621	115,200	600,821
46-505.0	ANNUAL ALLOCATION - UNSCHEDULED PROJECTS	834,037	616,538	1,450,574

2007 Project Components

46-196.6	BALBOA TRUNK SEWER	86,485	15,222	101,707
40-932.0	CAMDEN REDEVELOPMENT	6,772	-	6,772
40-910.2	CHOLLAS VALLEY TRUNK SEWER	40,084	-	40,084
46-162.0	EAST LINDA VISTA TRUNK SEWER - PHASES I AND II	32,596	7,701	40,297
46-169.0	EAST MISSION GORGE FORCE MAIN REHAB.	76,561	57,779	134,340
40-920.4	EAST MISSION GORGE TRUNK SEWER REHABILITATION	30,000	9,735	39,735
46-195.6'	EAST POINT LOMA TRUNK SEWER	53,812	12,094	65,906
46-205.0	HARBOR DRIVE TRUNK SEWER REPLACEMENT	25,301	14,295	39,596
46-139.2	HOME AVE TRUNK SEWER, CONTRACTS III	3,517	985	4,502
46-194.2	LA JOLLA/PACIFIC BEACH TS - CHELSEA ST. RELOC.	67,712	37,233	104,945
46-197.9	LAKE MURRAY TRUNK SEWER IN CANYON	487,522	72,735	560,257
46-195.8	MIRAMAR ROAD TRUNK SEWER	161,089	582,817	743,906
46-196.9	MONTEZUMA TRUNK SEWER	18,252	18,199	36,451
40-930.0	OTAY MESA TRUNK SEWER	1,015,971	109,385	1,125,356
46-506.0	PIPELINE REHAB IN THE RIGHT OF WAY (R.O.W.)	224,906	-	224,906
41-936.0	PUMP STATION 64 ELECTRICAL SYSTEM UPGRADES	2,611	65,792	68,404
41-939.0	PUMP STATION 84 UPG & PS 62 ABANDONMENT	7,987	9,318	17,306
41-929.0	PUMP STATION UPGRADES	136,105	43,532	179,636
46-200.0	SEWER PUMP STATION 30A RELOCATION	21,677	-	21,677
46-601.6	SEWER PUMP STATION 45	1,617,663	-	1,617,663
46-602.6	SEWER PUMP STATION 79	182,069	609,371	791,441
46-197.0	SORRENTO VALLEY TRUNK SEWER RELOCATION	8,106,182	658,237	8,764,418
40-931.0	SOUTH MISSION VALLEY TRUNK SEWER	66,982	45,574	112,556
40-928.0	SOUTH PACIFIC HIGHWAY TRUNK SEWER	517,107	176,971	694,078
46-197.6	USIU TRUNK SEWER	1,250,500	356,452	1,606,952
46-199.0	WEST LINDA VISTA TRUNK SEWER	3,406	-	3,406

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2007 Project Components

000200

	Total Muni	\$	34,154,984	\$	19,690,158	\$	53,845,142
Total Metro and Muni		\$	41,855,777	\$	23,744,442	\$	65,600,219
Redeem the Outstanding Bank of America Loan						\$	144,400,000
Total Bond Funds						\$	210,000,219

Source: Metropolitan Wastewater Department

City of San Diego
Subordinated Sewer Revenue Notes, Series 2007

Log of Outstanding Items as of March 16, 2007 for Note Purchase Agreement

<i>Document</i>	<i>Page No.</i>	<i>Outstanding Items</i>	<i>Responsible Party</i>	<i>Expected Availability</i>
Note Purchase Agreement	1	Determination of principal amount	City	April 2007
	1	Date of NPA to be selected after Council approval	City, Purchasers	April 2007
	1, 2	principal amounts, interest rates, Purchaser's fees, purchase prices fixed on date of signing of NPA	City, Purchasers	April 2007
	2	Closing Date	City, Purchaser	April 2007
	3	Date of adoption of resolution by the Authority	City	April 2007
	5	Date of adoption of resolution by the City	City	April 2007
	13	Section 5(d)(i) – date of wastewater fund statements	City, Purchasers	April 2007
	14	Expenses	City, Purchasers	April 2007
	S-1	Signatures	City, Authority, Purchaser, City Attorney	Date of Signing; April 2007

[\$ _____]
**PUBLIC FACILITIES FINANCING AUTHORITY
 OF THE CITY OF SAN DIEGO
 SUBORDINATE SEWER REVENUE NOTES, SERIES 2007**

NOTE PURCHASE AGREEMENT

April __, 2007

Public Facilities Financing Authority of the City of San Diego
 202 C Street
 San Diego, California 92101

City of San Diego
 202 C Street
 San Diego, California 92101

Ladies and Gentlemen:

Citigroup Global Markets Inc. (the "Purchaser") hereby offers to enter into this Note Purchase Agreement (this "Note Purchase Agreement") with the Public Facilities Financing Authority of the City of San Diego (the "Authority"), a joint exercise of powers authority duly organized and validly existing under and pursuant to the laws of the State of California, and the City of San Diego (the "City"), a municipal corporation organized and existing under its Charter and the Constitution and laws of the State of California (the "State"), which upon written acceptance of this offer will be binding upon the Authority, the City and the Purchaser. This offer is made subject to the Authority's and the City's written acceptance hereof on or before 11:59 P.M., California time, on the date hereof, and, if not so accepted, will be subject to withdrawal by the Purchaser upon notice delivered to the Authority and the City at any time prior to the acceptance hereof by the Authority and the City (and upon any such withdrawal, neither the City nor the Authority shall have any further obligation to the Purchaser with respect to the hereinafter described Notes and shall be free to sell the Notes to other purchasers).

Capitalized terms used and not defined herein shall have the same meanings as set forth in the 2007 Agreement (hereinafter defined).

1. Purchase, Sale, and Delivery of the Notes

(a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Purchaser hereby agrees to purchase from the Authority, and the Authority hereby agrees to sell and deliver to the Purchaser, all (but not less than all) of the \$ _____ aggregate principal amount of Public Facilities Financing Authority of the City of San Diego Subordinate Sewer Revenue Notes, Series 2007 (the "Notes"). The Notes will be issued on the Closing Date (as hereinafter

defined), in the principal amount of \$_____ and will bear interest at a rate of [__%] percent per annum as described in Section 2.03 of the 2007 Subordinate Indenture (defined below). The purchase price for the Notes shall be \$_____ (being the principal amount of the Notes, minus Purchaser's structuring fees of \$_____). The Notes shall each be substantially in the form described in, shall be issued and secured under the provisions of, and shall be payable as provided in the Subordinate Indenture of Trust, dated as of May 1, 2007 (the "2007 Subordinate Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as Trustee (the "Trustee"). The Notes are subject to redemption as provided in the 2007 Subordinate Indenture.

The Notes are limited obligations of the Authority payable from and secured by Revenues (as defined in the 2007 Subordinate Indenture) which include Subordinate Installment Payments to be made by the City to the Authority pursuant to the Subordinate Installment Purchase Agreement, dated as of May 1, 2007 (the "2007 Agreement"). The City will make the Subordinate Installment Payments from Net Subordinate Revenues of the City's Wastewater System (as those terms are defined in the 2007 Agreement). The proceeds of the sale of the Notes will be used for the purpose of enabling the Authority to provide funds (i) to reimburse the City for approximately \$34,000,000 of design, engineering, land acquisition and construction costs of certain capital improvements to the Wastewater System, (ii) to fund approximately \$20 million of new capital improvements to the City's Wastewater System, (ii) to refund the Authority's \$144,400,000 outstanding principal amount of Non-Transferable Subordinated Sewer Revenue Bonds, Series 2004 (Payable Solely from Series 2004 Subordinated Installment Payments Secured By Wastewater System Net Revenues) (the "Series 2004 Subordinated Bonds") and (iv) to pay certain costs of issuance associated with issuing the Notes.

(b) On [May __, 2007] at 8:30 a.m., or such other date and time as shall be agreed upon by the Purchaser and the Authority (the "Closing Date"), the Authority will deliver or cause to be delivered to Purchaser in [San Diego], California (or such other location as may be designated by the Purchaser and approved by the Authority) the Notes in the forms of registered certificated, book entry bonds (which may be typewritten), initially in denominations of \$100,000 or any \$5,000 increment above \$100,000, and subject to the terms and conditions hereof the Purchaser will accept delivery of the Notes in definitive form, duly executed by the Authority and authenticated by the Trustee, and the Purchaser will pay the purchase price of the Notes set forth in paragraph (a) of this Section 1 by the Federal Funds wire (such delivery and payment being herein referred to as "Closing"). Subject to the rules of the book-entry depository, the ownership of the Notes shall be registered and kept in the name of the Purchaser thereof or, if so designated by the Purchaser, a parent company, affiliate or subsidiary of the Purchaser, except as set forth in Section 8 of this Note Purchase Agreement.

2. Representations, Warranties and Agreements of the Authority

The Authority represents, warrants and covenants with the Purchaser that:

(a). the Authority is a joint exercise of powers authority duly organized and validly existing under and pursuant to the laws of the State of California, with full legal right, power and authority to issue, sell and deliver the Notes to the Purchaser pursuant to the 2007 Subordinate Indenture, and execute, deliver and perform its obligations, as the case may be, under this Note

Purchase Agreement, the 2007 Agreement and the 2007 Subordinate Indenture (collectively, the "Legal Documents") and the Notes, and to carry out and consummate all transactions contemplated by each of the aforesaid documents, and compliance with the provisions of the Legal Documents and the Notes will not materially conflict with or constitute a breach of or default under any applicable constitutional provision, law, administrative regulation, court order or consent decree or any applicable judgment or decree or any loan agreement, note, resolution, indenture, agreement or other instrument to which the Authority is a party or may be otherwise subject;

(b) the resolution adopted by the Authority on April ____, 2007 approving and authorizing the execution and delivery by the Authority of the Notes and the Legal Documents (the "Authority Resolution") was duly adopted at a meeting of the Authority called and held pursuant to law and with all public notice required by law and at which a quorum present and acting throughout, and is in full force and effect and has not been amended or repealed;

(c) there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the best knowledge of the Authority after reasonable investigation, threatened against or affecting the Authority to restrain or enjoin the execution, delivery or sale of the Notes or the collection or payment of Revenues that are the source of security for the Notes, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Notes or the Legal Documents, or in any way contesting or affecting the existence of the Authority or the title of any official of the Authority to such person's office, or contesting the power of the Authority or its authority with respect to the Notes or the Legal Documents;

(d) when delivered by the Authority and paid for by the Purchaser in accordance with the provisions of this Note Purchase Agreement, the Notes will have been duly authorized, executed and delivered and will constitute the valid and binding limited obligations of the Authority in conformity with, and entitled to the benefit and security of, the 2007 Subordinate Indenture;

(e) the Authority will deliver the duly executed 2007 Subordinate Indenture and 2007 Agreement on the Closing Date, has duly authorized and approved the execution and delivery of the Legal Documents and when executed and delivered, the Legal Documents, assuming due authorization, execution and delivery by the other respective parties thereto, will constitute the legally valid and binding obligations of the Authority enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors' rights generally;

(f) the execution and delivery of the Legal Documents, the adoption of the Authority Resolution, and compliance by the Authority with the provisions of the foregoing under the circumstances contemplated thereby do not and will not in any material respect conflict with or constitute on the part of the Authority a breach or default under any agreement or other instrument to which the Authority is a party or by which it is bound (and of which the Authority is aware after reasonable investigation) or by any existing law, regulation, court order or consent decree to which the Authority is subject;

[(g) the Authority is not in violation or breach of or default under any applicable law or administrative rule or regulation of the State of California or the United States of America, or any agency or instrumentality of either of them, or any applicable judgment or decree, or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both would constitute a violation or a breach of or a default under any such instrument; provided, however, that the Authority observes that the City has not filed audited or unaudited financial statements for the fiscal years ended June 30, 2003 through 2006 and thus is not in compliance with certain covenants related to the production and filing of such financial statements;]

(h) at the date hereof and as of the Closing Date, the Authority will be in compliance in all respects with the material covenants and agreements contained in the Legal Documents, and no event of default and no event has occurred and is continuing which, with the passage of time or giving of notice, or both, would constitute an event of default thereunder shall have occurred and be continuing;

(i) all approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the due performance by the Authority of its obligations under the Notes and the Legal Documents have been duly obtained or made, and are, and will be as of the Closing Date, in full force and effect;

(j) the Authority will comply with the requirements of the Tax Certificate executed by the City and the Authority in connection with the delivery of the Notes;

(k) any certificate signed by any officer of the Authority and delivered to the Purchaser pursuant to the Legal Documents or any document contemplated hereby or thereby shall be deemed a representation and warranty by the Authority to the Purchaser as to the statements made therein and that such officer shall have been duly authorized to execute the same; and

(l) to the best knowledge of the Authority, there is no public vote or referendum pending or proposed, (i) the results of which could materially adversely affect the transactions contemplated by the Legal Documents or the Notes, (ii) with respect to the Wastewater System rate increases (the "New Rate Schedule") approved by the City on February 26, 2007 (the "Rate Action"), or (iii) with respect to or which could have a material adverse effect on the validity or enforceability of the Notes; the time period for filing petitions requesting any public vote or referendum with respect to any of the actions discussed in clauses (i), (ii) or (iii) above have passed, provided, however, that pursuant to the terms of Article XIII D of the State Constitution, the New Rate Schedule remains subject to initiative.

All representations, warranties and agreements of the Authority shall remain operative and in full force and effect, regardless of any investigations made by or on the Purchaser's behalf, and shall survive the delivery of the Notes.

3. Representations, Warranties, and Agreements of the City

The City represents, warrants and covenants with the Purchaser that:

(a) the City is a municipal corporation organized and existing under a charter duly adopted pursuant to the provisions of the Constitution of the State of California, with full legal right, power, and authority to execute, deliver and perform its obligations, as the case may be, under this Note Purchase Agreement and the 2007 Agreement (collectively, the "City's Legal Documents") and to carry out and consummate all transactions contemplated by each of the City's Legal Documents, and compliance with the provisions of the City's Legal Documents will not materially conflict with or constitute a breach of or default under any applicable constitutional provision, law, charter provision, administrative regulation, court order or consent decree or any applicable judgment or decree or any loan agreement, note, resolution, indenture, agreement or other instrument to which the City is a party or may be otherwise subject;

(b) the resolution adopted on April __, 2007 of the City approving and authorizing the execution and delivery by the City of the City's Legal Documents (the "City Action") was duly adopted at a meeting of the City Council called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and is in full force and effect and has not been amended or repealed;

(c) except as described in the attached Wastewater Litigation Appendix, there is no action, suit, proceeding, inquiry or investigation at law or in equity or by or before any court, governmental agency, public board or body pending or, to the best knowledge of the City, after due investigation, threatened against or affecting the City (i) which in any way contests the existence, organization or powers of the City or the title of the officers of the City to their respective offices, or (ii) seeking to restrain or enjoin the issuance, sale or delivery of the Notes, or the collection of revenues or assets of the City pledged or to be pledged to pay the obligations of the City under the 2007 Agreement (including, without limitation, the New Rate Schedule), or the pledge thereof, or (iii) in any way contesting or affecting the validity or enforceability of the City's Legal Documents, or (iv) contesting the power of the City or its authority with respect to the Notes or the City's Legal Documents, or (v) contesting the exclusion of interest on the Notes from gross income for Federal income tax purposes; nor, to the best knowledge of the City, is there any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling, or finding would materially adversely affect the validity or enforceability of the City's Legal Documents or the authorization, execution, or delivery by the City of the City's Legal Documents, the New Rate Schedule or the performance of its obligations hereunder and thereunder;

(d) the execution and delivery of the City's Legal Documents, the adoption of the City Action and compliance by the City with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the City a breach or default under any agreement or other instrument to which the City is a party or by which it is bound (and of which the City is aware after reasonable investigation) or any existing law, regulation, court order or consent decree to which the City is subject;

(e) the City will deliver the duly executed 2007 Agreement on the Closing Date, has duly authorized the execution and delivery of the City's Legal Documents and when executed and delivered, the City's Legal Documents, assuming due authorization, execution and delivery by the other respective parties thereto, will constitute the legally valid and binding obligations of

the City enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors' rights generally;

[(f) except as described in the letter from the Chief Financial Officer of the City to the Purchaser dated January 12, 2007 and in the attached Wastewater Regulatory Action Appendix, the City is not in violation or breach of or default under any applicable law or administrative regulation of the State of California or the United States of America, or any agency or instrumentality of either of them, or any applicable judgment or decree, or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute a violation or a breach of or a default under any such instrument; provided further, however, that the City represents that it has not filed its audited or unaudited financial statements for the fiscal years ended June 30, 2003 through 2006 and thus is not in compliance with certain covenants related to the production and filing of such financial statements;]

(g) as of the date hereof, the City is, and as of the Closing Date will be, in compliance in all respects with the material covenants and agreements contained in the City's Legal Documents, and no event of default and no event has occurred and is continuing which, with the passage of time or giving of notice, or both, would constitute an event of default thereunder shall have occurred and be continuing which will materially adversely affect the ability of the City to deliver the Notes or to make the Subordinate Installment Payments on the Notes from Net System Revenues as set forth in the City Legal Documents;

(h) all approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the due performance by the City of its obligations under the City's Legal Documents and the Rate Action have been duly obtained or made and are in full force and effect;

(i) the City will comply with the requirements of the Tax Certificate executed by the City and the Authority in connection with the delivery of the Notes;

(j) any certificate signed by any officer of the City and delivered to the Purchaser pursuant to the City Legal Documents or any document contemplated thereby shall be deemed a representation and warranty by the City to the Purchaser as to the statements made therein and that such officer shall have been duly authorized to execute the same;

(k) to the best knowledge of the City, there is no public vote or referendum pending or proposed, (i) the results of which could materially adversely affect the transactions contemplated by the City's Legal Documents or the Notes, (ii) with respect to the New Rate Schedule, or (iii) with respect to or which could have a material adverse effect on the validity or enforceability of the Notes; the time period for filing petitions requesting any public vote or referendum with respect to any of the actions discussed in clauses (i), (ii) or (iii) above have passed, provided, however, that pursuant to the terms of Article XIII D of the State Constitution, the New Rate Schedule remains subject to initiative;

(l) the 2007 Agreement creates a valid pledge of and grant of a subordinated security interest in Net System Revenues purported to be pledged thereby, subject to no prior pledges or security interests other than as set forth in the 2007 Agreement;

(m) The City represents that the financial information provided to the Purchaser fairly represents the financial position of the Wastewater System and, the City is not aware of any information that would materially adversely affect its ability to pay debt service on the Notes as contemplated in the Legal Documents. The Purchaser acknowledges that the City has not had completed financial statements for the fiscal years 2004, 2005 and 2006, and is subject to various investigations as more fully set forth on Appendix F hereto;

(n) So long as the Notes remain outstanding, the City will provide the Trustee, the Purchaser and each lawful subsequent transferee under the provisions of Section 8 hereof with notice of the occurrence, if any, of each "Listed Event" set forth in Exhibit A attached hereto (and any relevant information related to such Listed Event) which Exhibit A is hereby incorporated herein as if fully set forth herein. The City will provide reasonable consultation with the Purchaser with respect to the occurrence of any Listed Event and with respect to any other event which, in the Purchaser's reasonable opinion, may have a material effect on the credit quality of the Notes. [The City also covenants to use its best efforts to obtain and make public its audited financial statements for the Fiscal Years ended June 30, 2003 through 2006 and to become compliant with its covenants related to the preparation and filing of such financial statements, provided however, that the inability or failure of the City to fulfill this covenant related to financial statements shall not be an event of default or breach hereunder so long as the City has complied with this covenant to use best efforts.] Except as set forth in this paragraph, the City shall not be obligated to provide additional information to or provide diligence sessions for the Purchaser or for any Qualified Institutional Buyers (as defined in Rule 144A promulgated under the Securities Act of 1933) interested in the Notes during the term of the Notes. Nothing in this paragraph shall prevent the Purchaser from obtaining publicly available information concerning the City or the Wastewater System and providing such publicly available information to Qualified Institutional Buyers in connection with a transfer permitted under Section 8 hereof.

All representations, warranties and agreements of the City shall remain operative and in full force and effect, regardless of any investigations made by or on the Purchaser's behalf, and shall survive the delivery of the Notes.

4. Agreements of the Purchaser

The Purchaser represents, warrants to and agrees with the Authority and the City that:

(a) the Purchaser has authority to purchase its series of the Notes and to enter into this Note Purchase Agreement;

(b) the Purchaser can bear the economic risk associated with a purchase of securities such as the Notes and the Purchaser has sufficient knowledge and experience in financial and business matters, including the analysis of a participation in the purchase of similar investments

so as to be capable of evaluating the risks and merits of the investment represented by the Notes on the basis of the information and review described herein;

(c) the Notes are being acquired by the Purchaser (and, to the extent transferred to a parent, affiliate or subsidiary of the Purchaser, such parent, affiliate and/or subsidiary) for investment and not with a view to, or for resale in connection with, any distribution of the Notes except as set forth in Section 8 of this Note Purchase Agreement. The Purchaser (or, to the extent transferred to a parent, affiliate or subsidiary of the Purchaser, such parent, affiliate and/or subsidiary) intends to hold its series of the Notes for its own investment portfolio through the maturity of the Notes subject to the matters set forth in Section 8 of this Note Purchase Agreement, and acknowledges that the Notes are non-negotiable and non-transferable except to a parent, affiliate and/or subsidiary of the Purchaser or otherwise as set forth in said Section 8. The Purchaser understands that it shall bear the risks of this investment since any sale prior to maturity is not permitted except as set forth in Section 8 of this Note Purchase Agreement;

(d) the Purchaser understands that the Notes are not registered under the 1933 Act and that such registration is not legally required as of the date hereof; and further understands that the Notes (a) are not being registered or otherwise qualified for sale under the "Blue Sky" laws and regulations of any state; (b) will not be listed in any stock or other securities exchange; (c) will not carry a rating from any rating service; and (d) will be delivered in a form which is non-negotiable and non-transferable except in accordance with the Indenture;

(e) the Purchaser has made its own inquiry and analysis with respect to the Notes and the security therefor, and with respect to other material factors affecting the security and payment of the Notes, and acknowledges that it has either been supplied with or been given access to information requested by such Purchaser in connection with its making such investment decisions, and has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the financial condition of the Wastewater System and the Sewer Revenue Fund, the Notes and the security therefor so that the Purchaser has been able to make an informed investment decision to purchase the Notes;

(f) [the Purchaser acknowledges that the City has not filed its audited or unaudited financial statements for fiscal years 2003 through 2006 and thus is not in compliance with certain covenants related to the production and filing of such financial statements];

(g) [the Purchaser acknowledges receipt of nonpublic unaudited draft summary financial statements of the City of San Diego, California Sewer Utility Fund for the fiscal years ended June 30, 2003 through June 30, 2006 and unaudited draft summary financial statements of the City of San Diego for fiscal years 2003 through 2005 (the "Nonpublic Draft Financial Statements") which statements have not been finalized by the City's independent auditors and are thus subject to change and revision and the Purchaser hereby covenants and agrees to protect and maintain the confidentiality of the Nonpublic Draft Financial Statements and to take appropriate steps to assure that its agents and employees involved in this transaction will not make use of such nonpublic information for any purpose other than the purchase of the Notes];

(h) the Purchaser acknowledges that the Notes are solely payable from Net Subordinate Revenues under the terms of the 2007 Agreement; and

5. Conditions to the Obligations of the Purchaser

The Purchaser hereby enters into this Note Purchase Agreement in reliance upon the representations and warranties of the Authority and the City contained herein and the representations and warranties to be contained in the documents and instruments to be delivered on the Closing Date and upon the performance by the Authority, the City and the Trustee of their respective obligations both on and as of the date hereof. Accordingly, the Purchaser's obligations under this Note Purchase Agreement to purchase, to accept delivery of and to pay for the Notes on the Closing Date shall be subject to the accuracy in all material respects of the representations and warranties of the Authority and the City contained herein as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the Authority, the City and the Trustee made in any certificate or document furnished pursuant to the provisions hereof, to the performance by the Authority, the City and the Trustee of their respective obligations to be performed hereunder and under the Legal Documents and the City's Legal Documents as herein defined at or prior to the date hereof and at or prior to the Closing Date, and also shall be subject to the following additional conditions:

(a) On the Closing Date, the Legal Documents and the City's Legal Documents shall have been duly authorized, executed and delivered by the Authority and by the City where each is a party, all in substantially the forms heretofore submitted to the Purchaser, with only such changes as shall have been agreed to in writing by the Purchaser, and shall be in full force and effect; and there shall be in full force and effect such resolution or resolutions of the Board of Commissioners of the Authority and the City Council as, in the opinion of Nixon Peabody LLP and Robinson & Pearman LLP (collectively, "Bond Counsel"), shall be necessary or appropriate in connection with the transactions contemplated hereby;

(b) On the Closing Date, all necessary action of the Authority relating to the issuance of the Notes will have been taken and will be in full force and effect and will not have been amended, modified or supplemented;

(c) On or prior to the Closing Date, the Purchaser shall have received the following documents, in each case satisfactory in form and substance to the Purchaser;

(i) one copy of the Legal Documents and the City's Legal Documents, each duly executed and delivered by the respective parties thereto;

(ii) the approving opinion, dated the date hereof and addressed to the Authority, of Bond Counsel in substantially the form attached to hereto as the Bond Counsel Opinion Appendix, and a letter of such counsel, dated the Closing Date, and addressed to the Purchaser to the effect that such opinion may be relied upon by such Purchaser to the same extent as if such opinion were addressed to it;

(iii) the opinion of the General Counsel to the Authority dated the Closing Date and addressed to the Purchaser, to the effect that: (A) the Authority is a joint exercise of powers authority duly organized and validly existing under the laws of the State of California; (B) the resolution or resolutions by the Authority approving and authorizing the execution and delivery

by the Authority of the Legal Documents (the "Authority Resolution") was duly adopted at a meeting of the Authority which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and is in full force and effect and has not been amended or repealed; (C) other than as the Authority has otherwise disclosed to you in writing, there is no action, suit, proceedings or investigation at law or in equity before or by any court, public board or body, pending or, to the best knowledge of such counsel after reasonable investigation, threatened against or affecting the Authority, to restrain or enjoin the execution, delivery or sale of the Notes or the collection or payment of Revenues that are the source of security for the Notes, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Notes or the Legal Documents, or in any way contesting or affecting the existence of the Authority or the title of any official of the Authority to such person's office, or contesting the power of the Authority or its authority with respect to the Notes or the Legal Documents or contesting the exclusion of interest on the Notes from gross income for Federal income tax purposes; (D) the execution and delivery of the Legal Documents, the adoption of the Authority Resolution, and compliance by the Authority with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the Authority a breach or default under any agreement or other instrument to which the Authority is a party (and of which such counsel is aware after reasonable investigation) or by which it is bound (and of which such counsel is aware after reasonable investigation) or by any existing law, regulation, court order or consent decree to which the Authority is subject; (E) the Legal Documents have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding agreements of the Authority enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the limitations on legal remedies against public agencies in the State of California and the application of equitable principles if equitable remedies are sought; and (F) no authorization, approval, consent, or other order of the United States of America, the State of California, or any other governmental authority or agency within the State of California having jurisdiction over the Authority is required for the valid authorization, execution, delivery and performance by the Authority of the Legal Documents or for the adoption of the Authority Resolution which has not been obtained;

(iv) the opinion of the City Attorney, dated the Closing Date and addressed to the Authority and the Purchaser, to the effect that: (A) the City is duly organized and existing under its charter and the laws of the State of California; (B) the City Action and the wastewater rate increases approved by the City on February 26, 2007 ("New Rate Schedule") were each duly adopted at meetings of the City Council which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and are each in full force and effect and has not been amended or repealed and time for filing any petition to subject the City action to public vote or referendum has passed (provided, however, that pursuant to the terms of Article XIII D of the State Constitution, the New Rate Schedule remains subject to initiative); (C) there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the best knowledge of such counsel after reasonable investigation, threatened against or affecting the City, to restrain or enjoin the execution, delivery or sale of the Notes or the collection or payment of revenues or assets of the City pledged or to be pledged to pay the obligations of the City under the 2007 Agreement (including, but not limited to, the New Rate Schedule), or the pledge thereof, or in

any way contesting or affecting the validity or enforceability of the Notes or the City's Legal Documents, or in any way contesting or affecting the existence of the City or the title of any official of the City to such person's office, or contesting the power of the City or its authority with respect to the Notes or the City's Legal Documents, or contesting the exclusion of interest on the Notes from gross income for Federal income tax purposes; (D) the execution and delivery of the City's Legal Documents, the adoption of the City Action and compliance by the City with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the City a breach or default under any agreement or other instrument to which the City is a party (and of which such counsel is aware after reasonable investigation) or by which it is bound (and of which such counsel is aware after reasonable investigation) or any existing law, regulation, court order or consent decree to which the City is subject; (E) the City's Legal Documents have been duly authorized, executed and delivered by the City, and assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding agreements of the City enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the limitations on legal remedies against public agencies in the State of California and the application of equitable principles if equitable remedies are sought; and (F) no authorization, approval, consent or other order of the United States of America, the State of California or any other governmental authority or agency within the State of California having jurisdiction over the City is required for the valid authorization, execution, delivery and performance by the City of the City's Legal Documents or for the adoption of the City Action which has not been obtained;

(v) a certificate of a duly authorized official of the Trustee, dated the Closing Date, to the effect that: (A) the Trustee is a national banking association organized and existing under and by virtue of the laws of the United States, having the full power and being qualified to enter into and perform its duties under the 2007 Subordinate Indenture and to authenticate and deliver the Notes to the Purchaser; (B) the Trustee is duly authorized to enter into the 2007 Subordinate Indenture and to authenticate and deliver the Notes to the Purchaser pursuant to the 2007 Subordinate Indenture; (C) when delivered to and paid for by the Purchaser at the Closing, the Notes will have been duly authenticated and delivered by the Trustee; (D) the execution and delivery of the 2007 Subordinate Indenture and compliance with the provisions on the Trustee's part contained therein, will not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, note, resolution, agreement or other instrument to which the Trustee is a party or is otherwise subject (except that no representation, warranty or agreement is made with respect to any federal or state securities or blue sky laws or regulations), which conflict, breach or default would materially impair the ability of the Trustee to perform its obligations under the 2007 Subordinate Indenture, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets held by the Trustee pursuant to the lien created by the 2007 Subordinate Indenture under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the 2007 Subordinate Indenture; and (E) to the best of the knowledge of the Trustee, it has not been served with any action, suit, proceeding, inquiry or investigation in law or in equity, before or by any court, governmental agency, public board or body, nor is any such action or other proceeding threatened against the Trustee, affecting the existence of the Trustee, or the titles of

its officers to their respective offices or seeking to prohibit, restrain, or enjoining the execution and delivery of the Notes or the collection of revenues to be applied to pay the principal, premium, if any, and interest with respect to the Notes, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the 2007 Subordinate Indenture, or contesting the powers of the Trustee or its authority to enter into, adopt or perform its obligations under any of the foregoing to which it is a party, wherein an unfavorable decision, ruling or funding would materially adversely affect the validity or enforceability of the 2007 Subordinate Indenture or the power and authority of the Trustee to enter into and perform its duties under the 2007 Subordinate Indenture and to authenticate and deliver the Notes to or upon the order of the Purchaser;

(vi) the opinion, dated the Closing Date and addressed to the Purchaser, the Authority and the City, of Counsel to the Trustee, to the effect that: (A) the Trustee has been duly incorporated as a national banking association under the laws of the United States and is in good standing under the laws of the State of California, duly qualified to do business and to exercise trust powers therein, having full power and authority to enter into and to perform its duties as Trustee under the 2007 Subordinate Indenture; (B) the Trustee has duly authorized, executed and delivered the 2007 Subordinate Indenture, and by all proper corporate action has authorized the acceptance of the trusts of the 2007 Subordinate Indenture; (C) the 2007 Subordinate Indenture constitutes a legally valid and binding agreement of the Trustee, enforceable against the Trustee in accordance with its terms, and (D) the Notes have been validly authenticated and delivered to the Trustee;

(vii) one certified copy of the general resolution of the Trustee authorizing the execution and delivery of the 2007 Subordinate Indenture;

(viii) one certified copy of each of the Authority Resolution;

(ix) one certified copy of the City Action and the Rate Action;

(x) a tax certificate of the Authority and the City in form and substance acceptable to Bond Counsel;

(xi) copies of the Report of Proposed and Final Sale required to be delivered to the California Debt and Investment Advisory Commission;

(xii) a certified copy of the joint exercise of powers agreement pursuant to which the Authority was created;

(xiii) certified copies of the resolutions of the City and the Redevelopment Agency of the City of San Diego authorizing the creation of the Authority;

(xiv) evidence from the Secretary of State that the Authority is in good standing;

(xv) a certified copy of the Master Installment Purchase Agreement and all amendments and supplements thereto;

(xvi) a certified copy of each Senior State Loan;

(xvii) a certified copy of the Indenture (Subordinated Bonds) for the Series 2004 Subordinated Bonds; and

(xviii) such additional legal opinions, certificates, instruments or evidences thereof and other documents as the Counsel to the Purchaser or Bond Counsel may reasonably request to evidence the due authorization, execution and delivery of the Notes and the conformity of the Notes and the Legal Documents with the terms of the Notes.

(d) At or prior to the Closing Date, the Purchaser shall have the right to terminate the Purchaser's obligations under this Note Purchase Agreement to purchase, to accept delivery of and pay for the Notes, if, after the pricing of the Notes and prior to the Closing Date, any one of the following events should occur, and upon any such termination neither the City nor the Authority shall have any further obligation to the Purchaser with respect to the Notes:

(i) Any material adverse change in the condition, financial or otherwise, of the City or in the earnings and operations of the Wastewater Utility Fund of the City from that described to the Purchaser as of March 8, 2007 that, in the reasonable judgment of the Purchaser after due consultation with the City, materially adversely affects the market price of the Notes or the ability of the City to make debt service payments on the Notes;

(ii) (a) Legislation (including any amendment thereto) shall have been approved by any committee of the State Legislature of the State of California or of either House of Congress of the United States or recommended for passage by the President of the United States, the Treasury Department of the United States or the Internal Revenue Service, or (b) a decision shall have been rendered by any federal or applicable state court, or (c) an order, filing or regulation shall have been issued or proposed by or on behalf of the Treasury Department of the United States or by the Internal Revenue Service or any other agency of the United States, or (d) a release or official statement shall have been issued by the President of the United States or by the Internal Revenue Service, the effect of which, in any such case described in clause (a), (b), (c), or (d), would be to impose, directly or indirectly, federal or State income taxation upon interest received on obligations of the general character of the Notes under federal or State tax laws, in such a manner as in the reasonable judgment of the Purchaser would materially adversely affect the market price of the Notes;

(iii) The declaration of war or the outbreak of new or escalation of military hostilities or terrorist activities involving the United States or the occurrence of any other national emergency or calamity relating to the effective operation of the government of or the financial community in the United States, which, in the reasonable judgment of the Purchaser, would materially adversely affect the market price of the Notes;

(iv) The declaration of a general banking moratorium by federal, New York or California authorities, the general suspension of trading on any national securities exchange or a material disruption in securities settlement, payment or clearance services, which event, in the reasonable judgment of the Purchaser, would materially adversely affect the market price of the Notes;

(v) The imposition by the New York Stock Exchange or other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to obligations of the general character of the Notes or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to net capital requirements of, the Purchaser, which, in the reasonable judgment of the Purchaser, would materially adversely affect the market price of the Notes;

(vi) An order, decree or injunction of any court of competent jurisdiction, or order, ruling, regulation or official or staff statement by the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Notes or the issuance, offering or sale of the Notes, including any and all underlying obligations is or would be in violation of federal securities laws as amended and then in effect or any other law as then in effect; or

(vii) There shall have occurred any downgrading, or any additional notice shall have been given of any intended downgrading of the Authority's MIPA Obligations, by at least a full category by any of the national rating agencies that currently rate some or all of the Authority's MIPA Obligations, which downgrading, in the reasonable judgment of the Purchaser, would materially adversely affect the market price of the Notes.

6. Expenses

All expenses and costs incident to the authorization, execution, delivery and sale of the Notes to the Purchaser, including the costs of preparation and printing of the Notes, [the Purchaser's out-of-pocket expenses in an amount not to exceed \$_____ (including a fixed fee of \$_____ for Purchaser's counsel, and other expenses such as travel, and out of pocket fees for CDIAC, DTC and Dalnet reporting), legal fees and expenses of Bond Counsel, fees and expenses of the Trustee (including, but not limited to, fees of Trustee's counsel) and other eligible costs of issuance shall be paid from the proceeds of the Notes or shall be paid by the Authority or the City.

7. Notices

Any notice or other communication to be given to the Authority or the City under this Note Purchase Agreement may be given by delivering the same in writing at the Authority's and the City's addresses, respectively, set forth above and any such notice or other communication to be given to the Purchaser shall be delivered to both of the following two addresses:

Michael Hershkowitz Citigroup Global Markets Inc. 390 Greenwich Street, 2nd Floor New York, NY 10013 212-723-6320	Christopher Mukai Citigroup Global Markets Inc. 444 South Flower Street, 27th Floor Los Angeles, CA 90072 213-486-8992
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8. Transferability

Except as set forth in this Section 8 of the Note Purchase Agreement, the Notes may only be held by the Purchaser or transferred to a parent, subsidiary or affiliate of the Purchaser. The Purchaser hereby covenants, agrees and certifies that any, each and every transfer of all or a portion of the Notes shall only be made strictly in accordance with all of the applicable provisions set forth in this Section 8 including the notice and information requirements, and that the Purchaser will make no other sales or transfers of the Notes during the term of the Notes. The Purchaser shall provide prior written notice to the City of each and every transfer by the Purchaser of the Notes, provided, however, that such notice may be provided within a reasonable time after any such transfer if prior notice to the City, in the sole view of the Purchaser, could adversely affect the market price of the transfer or would be impractical for any other reason.

A. On any date on or after the Closing Date, the Notes may be transferred to a trust or custodial arrangement of which the Purchaser is the sponsor and trustor if (A) the Purchaser or its parent, subsidiary or affiliate agrees to guarantee or provide credit enhancement for the Notes and (B) the beneficial interests of the trust are held by twelve or fewer (i) "Accredited Investors" within the meaning of Rule 501(a)(1)-(3) of Regulation D under the 1933 Act or (ii) "Qualified Institutional Buyers" within the meaning of Rule 144A under the 1933 Act.

B. On any date on or after the one year anniversary of the Closing date, upon the occurrence and continuance of a "Transfer Event" described in Exhibit A attached hereto, the Purchaser shall have the additional right to sell or transfer its Notes to one or more Qualified Institutional Buyers (as defined in Rule 144A promulgated under the Securities Act of 1933) providing that any such sales of each series shall be to a cumulative aggregate total of twelve or fewer such Qualified Institutional Buyers with respect to such series and that each such transferee shall execute an Investor Letter in the form of Exhibit D attached to this Note Purchase Agreement.

The Purchaser shall provide any eligible transferee with copies of the Legal Documents and shall timely request that the Trustee provide each and every transferee with copies of all prior notices of Listed Events filed by the City pursuant to the provisions of Section 3 (m) of this Note Purchase Agreement. Nothing in this paragraph shall prevent the Purchaser from obtaining publicly available information concerning the City or the Wastewater System, provided, however, that no document, information or other material prepared by or on behalf of the Purchaser with respect to a transfer of the Notes shall directly or indirectly create any impression that such document, information or other material was prepared by or on behalf of the City or the Authority or that the City or the Authority makes any representations with respect to the document, information or other material prepared by or on behalf of the Purchaser.

9. Parties in Interest

This Note Purchase Agreement is made solely for the benefit of the Authority, the City and the Purchaser and no other person shall acquire or have any right hereunder or by virtue hereof. All the representations and warranties of the parties hereto contained in this Note

Purchase Agreement shall remain operative and in full force and effect so long as the Notes are outstanding, regardless of (a) any investigations made by or on behalf of the Purchaser or the Authority or the City or (b) delivery of and payment for the Notes. The agreements contained in Section 4 hereof shall survive any termination of this Note Purchase Agreement.

10. Counterparts

This Note Purchase Agreement may be executed in any number of counterparts, each of which shall be an original, and all of which shall constitute but one and the same instrument.

11. Effectiveness

This Note Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the duly authorized officers of the Authority and shall be valid and enforceable as of the time of such acceptance.

12. Choice of Law

The validity, interpretation and performance of this Note Purchase Agreement shall be governed by the laws of the State of California, without regard to conflicts of law.

13. Severability

In the event any provision of this Note Purchase Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

14. Entire Agreement

The Note Purchase Agreement, when accepted by the Authority and the City in writing as heretofore specified, shall constitute the entire agreement among the Authority, the City and the Purchaser.

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15. Headings

The headings of the sections of this Note Purchase Agreement are inserted for convenience only and shall not be deemed to be part hereof.

CITIGROUP GLOBAL MARKETS INC.

By: _____
Managing Director

Accepted as of the date hereof:

PUBLIC FACILITIES FINANCING
AUTHORITY OF THE CITY OF
SAN DIEGO

By: _____
Title: Chair

CITY OF SAN DIEGO

By: _____
Title: Chief Financial Officer

APPROVED AS TO FORM:
Michael J. Aguirre, City Attorney

By: _____
Mark D. Blake
Title: Chief Deputy City Attorney

EXHIBIT A to Note Purchase Agreement

A. LISTED EVENTS.

The City will promptly notify the Trustee, the Purchaser and each subsequent transferee of the occurrence of any of the following "Listed Events" within five business days of the occurrence of each such event:

1. a principal or interest payment delinquency under any Obligations (defined in the 2007 Agreement) or on any City bonded indebtedness;
2. any non-payment related default with respect to any Obligations;
3. any unscheduled draws on trustee held debt service reserves for any Obligations reflecting financial difficulties;
4. any unscheduled draws on credit enhancements reflecting financial difficulties for any Obligations;
5. a substitution of credit providers or their failure to perform for any Obligations;
6. an adverse tax opinion or event affecting the tax-exempt status of the Notes;
7. any material modifications to rights of security holders of any Obligations;
8. any redemption (other than scheduled sinking fund redemptions) or any defeasance of Obligations;
9. any sale or transfer of ownership or control by the City of more than 10% of the Metropolitan or Municipal Wastewater System;
10. a rating change for any Obligations;
11. any approval of a substantial reduction in the rates and charges related to the Wastewater System by the City Council or by initiative;
12. a filing of voluntary or involuntary petition in bankruptcy, insolvency or similar reorganization by or against City relating to the City, the Wastewater System or any City investment pool containing the funds of the Wastewater System or the proceeds of any Obligations;
13. a filing of litigation against the City or the Authority challenging the validity of the Notes, the Legal Documents, the New Rate Schedule or the pledge of Net System Revenues related thereto;
14. a reduction of more than 50% of the moneys in Wastewater System rate stabilization and emergency reserve funds below the level set out in the unaudited balances at

June 30, 2006 as reported in the Summary Financial Statements prepared by the City Auditor titled "Changes in Funds Available for Appropriation for Fiscal Year ending June 30, 2006.

15. any release of financial statements for the City or the Wastewater System whether such statements are unaudited or are accompanied by a qualified or unqualified audit letter; or

16. any issuance of additional Obligations.

B. TRANSFER EVENTS.

Each of the following shall be "Transfer Events" for purposes of the Wastewater Term Sheet:

1. a principal or interest payment delinquency on any Obligations or on City bonded indebtedness;

2. any rate covenant default with respect to any Obligations;

3. an adverse tax opinion or event affecting the tax-exempt status of the Notes;

4. any sale or transfer of ownership or control by the City of more than 10% of the Metropolitan or Municipal Wastewater System;

5. a rating downgrade or an additional suspension of rating for any Obligations;

6. a voluntary or involuntary petition in bankruptcy, insolvency or related reorganization is filed by the City or otherwise filed relating to the City, the Wastewater System or any City investment pool containing a material amount of funds of the Wastewater System or a material amount of unspent proceeds of any Obligations;

7. a written opinion, order or decision, whether final or not, is given by a court of competent jurisdiction impugning the validity of the Notes, the Legal Documents, the New Rate Schedule or the pledge of Net System Revenues related thereto;

8. a reduction or divestiture of 50% or more of the municipal bond portfolio of the Purchaser occurs due to a change in business direction, a change in market conditions or otherwise or a material reduction of the municipal bond portfolio of the Purchaser occurs due to a change in regulatory requirement or change in ownership.

9. any unscheduled draws on trustee held debt service reserves for any Obligations reflecting financial difficulties

EXHIBIT B to Note Purchase Agreement

[FORM BOND COUNSEL OPINION]

May __, 2007

Public Facilities Financing Authority
of the City of San Diego
202 C Street
San Diego, California 92101

City of San Diego
202 C Street
San Diego, California 92101

RE: \$_____ *Public Facilities Financing Authority of the City of San Diego*
Subordinate Sewer Revenue Notes, Series 2007

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Public Facilities Financing Authority of the City of San Diego (the "Authority") of \$_____ aggregate principal amount of its Subordinate Sewer Revenue Notes, Series 2007 (the "Notes"). The Notes are being issued pursuant to a Subordinate Indenture of Trust, dated as of May 1, 2007 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

As bond counsel, we have examined the Indenture, the Subordinate Installment Purchase Agreement, dated as of May 1, 2007, by and between the City and the Authority (the "Installment Purchase Agreement"), the Tax Certificate and Nonarbitrage Certificate, executed by the Authority and the City and dated the date hereof (the "Tax Certificate"), opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City, the Trustee and others, copies, certified to us as being true and complete, of the proceedings of the City and of the Authority for the authorization and issuance of the Notes, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein, although in doing so, we have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all signatures thereto. We express no opinion as to any provision in the Indenture or the Installment Purchase Agreement with respect to the priority of any pledge or security interest, indemnification, or governing law. We advise you that we have not made or undertaken to make any investigation of the state of title to any of the real property or ownership of any personal property described in the Installment Purchase Agreement, or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

We have, with your approval, assumed that all items submitted to us as originals are authentic and that all items submitted as copies conform to the originals.

On the basis of such examination, our reliance upon the assumptions contained herein and our consideration of such questions of law as we considered relevant, and subject to the limitations and qualifications in this opinion, we are of the opinion that:

1. The Notes constitute the legally valid and binding limited obligations of the Authority;
2. The Indenture has been duly executed and delivered by, and constitutes the legally valid and binding obligation of, the Authority, enforceable in accordance with its terms. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Notes, of the Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Indenture, other than amounts on deposit in the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture;
3. The Installment Purchase Agreement has been duly authorized, executed and delivered by, and constitutes the legally valid and binding obligation of, the Authority and the City, enforceable in accordance with its respective terms. The pledge by the City of Net System Revenues creates a legally valid and enforceable lien on Net System Revenues in favor of the Authority; and
4. The Notes are not a lien or charge upon the funds or property of the Authority except to the extent of Revenues referred to in paragraph 1 above. Neither the faith and credit nor the taxing powers of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Notes.

The opinions set forth in paragraphs 1 and 2 above assume that the Trustee has duly authenticated the Notes and that the Indenture is the legally valid, binding and enforceable agreements of the Trustee. In addition, the enforceability of the agreements, covenants and obligations described in paragraphs 1, 2 and 3 above may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws). In addition, the enforceability of such agreements, covenants and obligations is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and the limitations on legal remedies against government entities in the State of California. We express no opinion regarding the availability of equitable remedies.

5. The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements that must be met subsequent to the issuance and delivery of the Notes for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Notes to be included in gross income for federal income tax purposes retroactive to the date of issue of the Notes. Pursuant to the Installment Purchase Agreement, the Indenture and the Tax Certificate, the City and the Authority have each covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Notes from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the City and the Authority have made certain additional covenants, representations and certifications in the Installment Purchase Agreement, the Indenture and the Tax Certificate. We have not independently verified compliance with such covenants or the accuracy of those representations and certifications.

Under existing law, assuming compliance with the above-mentioned tax covenants and the accuracy of the above-mentioned representations and certifications, we are of the opinion that interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Notes is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

6. We are further of the opinion that the interest on the Notes is exempt from personal income taxes of the State of California under present state law.

Except as stated in the preceding three paragraphs, we express no opinion as to any other federal or state tax consequences of the ownership, receipt of interest on or disposition of the Notes. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Notes, or the interest thereon, if any action is taken with respect to the Notes or the proceeds thereof upon the advice or approval of other counsel.

This opinion is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters. We assume no obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention or any changes in laws which may hereafter occur.

We call attention to the fact that the opinions expressed herein and the exclusion of interest due on the Notes from gross income for federal income tax purposes may be affected by actions taken or omitted or events occurring or failing to occur after the date hereof. We have not undertaken to determine, or inform any person, whether any such actions are taken, omitted, occur or fail to occur.

We express no opinion regarding the accuracy or completeness of any materials provided to the purchaser in the course of its due diligence exercise or otherwise made available to them or on the sufficiency of the Revenues or Net System Revenues to pay debt service on the Notes.

Respectfully submitted,

EXHIBIT C

FORM OF INVESTOR REPRESENTATION LETTER

[Trustee]
[Authority]
[City]
[Original Purchaser]

[\$ _____]
PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO
SUBORDINATED SEWER REVENUE NOTES, SERIES 2007

INVESTOR REPRESENTATION LETTER

Ladies and Gentlemen:

In connection with the purchase of the above-captioned Notes by the undersigned (the "Investor"), the Investor hereby makes the following representations upon which you may rely:

1. The Investor hereby acknowledges receipt of the Notes and copies of the Subordinate Indenture of Trust, dated as of May 1, 2007 between the Public Facilities Financing Authority of the City of San Diego (the "Authority") and Wells Fargo Bank, National Association, as trustee (the "Indenture");, the Subordinate Installment Purchase Agreement dated as of May 1, 2007 by and between the City of San Diego and the Authority (the "Installment Purchase Agreement"), relating to the Notes. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture

2. The Investor is duly and validly organized under the laws of its jurisdiction of incorporation or organization, and has the legal authority to purchase the Notes and to execute this Investor Representation Letter.

3. The Investor is a "Qualified Institutional Buyer" as that term is defined under Rule 144A of the Securities Act of 1933, as amended (the "Act").

4. The Investor understands that the Notes are not registered under the Act and that such registration is not legally required as of the date hereof, and further understands that the Notes (i) are not being registered or otherwise qualified for sale under the "Blue Sky" laws and regulations of any state, (ii) will not be listed in any stock or other securities exchange, (iii) do not carry a rating from any rating service and (iv) will be delivered in a form which is non-negotiable and non-transferable except in accordance with the Indenture.

5. The Investor understands that (a) the principal of, premium, if any, and interest on the Notes are limited obligations of the Authority payable solely from Revenues, which consist primarily of Subordinate Installment Payments to be made by the City under the Installment Purchase Agreement, (b) the Notes do not constitute a debt or liability of the City or the State of California (the "State") for which the faith and credit of the City or the State, or any political subdivision thereof, is pledged, but shall be payable solely from Net Subordinate Revenues and (c) the liability of the Authority with respect to the Notes is limited to the Trust Estate as set forth in the Indenture.

6. The Notes are being acquired by the Investor for investment and not with a view to, or for resale in connection with, any distribution of the Notes except as set forth in Section 8 of this Note Purchase Agreement. The Investor intends to hold its series of the Notes for its own investment portfolio through the maturity of the Notes subject to the matters set forth in Section 8 of this Note Purchase Agreement, and acknowledges that the Notes are non-negotiable and non-transferable except as set forth in said Section 8. The Investor understands that it shall bear the risks of this investment since any sale prior to maturity is not permitted except as set forth in Section 8 of this Note Purchase Agreement.

7. The Investor can bear the economic risk associated with a purchase of securities such as the Notes and has sufficient knowledge and experience in financial and business matters, including the analysis of or participating in the purchase of similar investments, so as to be able to evaluate the risks and the merits associated with an investment in the Notes.

8. The Investor has made its own inquiry and analysis with respect to the Notes and the security therefor, and with respect to other material factors affecting the security and payment of the Notes. The Investor recognizes and agrees that the Authority and the City, each employee of the Authority and the City, each member of the governing board of the Authority and the City, counsel to the Authority and the City, the Trustee, counsel to the Trustee and Bond Counsel have made no representations or statements (expressed or implied) with respect to the accuracy or completeness of any of the information reviewed by the Investor in connection with the Investor's purchase of the Notes and that such parties have no duty to the Investor to make any representation or provide any disclosure document to the Investor in connection with its purchase of the Notes. In making its investment decision, the Investor is relying solely upon its own examination of the City and the Notes.

9. The Investor acknowledges (i) that as of the original issue date of the Notes, the City had not prepared audited financial statements for the fiscal years ended 2004, 2005 and 2006, (ii) [that as of the date hereof, the City has not prepared audited financial statements for the fiscal years ended [2004, 2005 and 2006] and (iii)] that the City may be subject to regulatory investigations and litigation which may be material to the Notes.

10. The Investor acknowledges receipt of a copy of the Note Purchase Agreement dated as April __, 2007 among the City, the Authority and Citigroup Global Markets Inc. as the original purchaser (the "Purchaser") of the Notes, which Note Purchase Agreement sets out the "Listed Events" and the "Transfer Events" in Section 8 and Exhibit A thereto. The Investor further acknowledges that the Investor has been informed by the Purchaser that Transfer Event number __ has occurred and that the Investor may obtain from the Trustee (defined in the Note

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Purchase Agreement) a copy of each notice of a Listed Event previously provided by the City under the Note Purchase Agreement.

11. The Investor covenants that it will not sell or otherwise transfer the Notes or beneficial interests therein except to Qualified Institutional Buyers who execute an Investor Representation Letter in substantially the form hereof.

Very truly yours,

[INVESTOR]

By _____

Authorized Signatory

APPENDIX D

Wastewater Litigation Appendix

United States v. City of San Diego, U.S. Dist. Ct. No. 03-CV-1349K.

San Diego Baykeeper et al. v. City of San Diego, U.S. Dist. Ct. No. 01-CV-0550-B

Each of these lawsuits alleges violations of the Clean Water Act due to sewer system overflows by the City from December 1996 to the present. The suits have been consolidated. Plaintiffs are seeking an injunction and penalties of up to \$27,500 per violation. The City is currently under a Second Partial Consent Decree which expires on June 30, 2007. The parties have tentatively agreed to a Final Consent Decree which will obligate the City to perform certain maintenance activities and capital improvement projects to the sewer system through the year 2013. The estimated annual cost of this commitment is \$163 million in capital projects and \$50 million for operations and maintenance. Execution and lodging of the Final Consent Decree can occur after securing short-term financing and City Council approval. If entered by the Court, the Final Consent Decree includes stipulated penalties of \$375 to \$20,000 per day for non-compliance, depending on the nature and duration of the violation.

Beacon Electric v. Saturn Electric, et al. S.D. Sup. Ct. No. GIC 849095

This lawsuit seeks costs associated with construction delays on sewer pump stations, allegedly caused by the City. Mediation is scheduled for March 2007. Alleged damages are approximately \$1.5 million.

Shames v. City of San Diego, et al., S.D. Sup. Ct. No. GIC831539

Plaintiff filed a class action lawsuit alleging the City used an improper method of calculating sewer rates, in violation of the California Constitution and the terms of state capital improvement grants/loans, which caused certain classes of ratepayers to overpay for sewer services. A class action settlement which would cause the City's sewer enterprise to reimburse single family residential ratepayers \$40 million was given preliminary approval by the court in December 2006 and a hearing on final approval is set for May 2007. However, the California Restaurant Association filed a motion on March 1, 2007 seeking to add a new class plaintiff and legal counsel in the case, alleging they are disadvantaged by the proposed settlement. What effect, if any, this will have on the settlement is not known at this time.

Vadnais Corporation, et al v. City of San Diego, S.D. Sup. Ct. No. GIC854791

Contractor and subcontractor seek costs of approximately \$1 million for differing site conditions encountered in construction of sewer lines for Pump Station 30A. City has cross-complained against geotech engineers for negligence and indemnity and against plaintiff contractors for false claims as to some of the alleged additional costs. City will attempt to settle case for less than claim amount. No trial date has been set.

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APPENDIX E

Wastewater Regulatory Action Appendix

The wastewater system is no currently operating under any administrative orders, other than the Second Partial Consent Decree (above) and other regulatory requirements typical of operating a wastewater collection and treatment system (e.g., National Pollutant Discharge Elimination System permits issued under the Clean Water Act).

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APPENDIX F

CITY OF SAN DIEGO PENDING INVESTIGATIONS REGARDING UNDERFUNDING OF ITS PENSION SYSTEM

The following provides a summary of certain matters regarding the City's financial statements and certain ongoing investigations relating to the City. The City found errors in various financial statements for the fiscal year ended June 30, 2002. Certain of these errors were reported by the City to the nationally recognized municipal securities information repositories in filings dated January 27, 2004, and March 12, 2004. As a result of the discovery of such errors, the City retained the accounting firm of KPMG LLP to perform a full scope audit and render an opinion on the financial statements of the City for the fiscal year ended June 30, 2003. The City has retained the accounting firm of Macias, Gini & Company LLP [Macias] to perform an audit and render an opinion on the financial statements of the City for the fiscal years ended June 30, 2004 and June 30, 2005. The City Council is considering retaining Macias for the completion of the budget for the fiscal year ending June 30, 2006.

On February 13, 2004, the U.S. Securities and Exchange Commission notified the City that it was investigating certain City bond offerings. At the same time, the United States Attorney's Office began its investigation regarding certain bond offerings by the City. The City retained Vinson & Elkins L.L.P. ("V&E") to investigate the City's disclosure practices regarding the funding of pension fund liability for the period 1996-2004. V&E released their report on September 16, 2004. KPMG advised the City that in its view the V&E report did not provide a basis for the City to conclude whether there was any "intentional misconduct or other conduct, which violated any law, rule, or regulation having the force of law." On August 4, 2005 V&E released an additional report intended to complete the additional investigative procedures to be responsive to KPMG's concerns. Such report was submitted to the City Council and the City's outside Audit Committee for review.

On August 8, 2006, the Audit Committee released its report entitled, "Investigation Into The San Diego City's Employees' Retirement System and the City of San Diego Sewer Rate Structure" (the "Report"). The Report concluded that failures of San Diego city government, including government officials, contributed to the City's failure to conform to requirements of law and to adhere to principles of sound governance and financial reporting. Moreover, the Report concluded that City officials deliberately failed to obey the law with regard to rate setting requirement for the sewer system.

On November 14, 2006, the City of San Diego entered into a cease-and-desist order with the Securities and Exchange Commission (Commission) relating to violations of the antifraud provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934 in connection with the offer and sale of municipal securities in 2002 and 2003, and other related public financial disclosures.

The Commission concluded that the "City's public disclosures in the preliminary official statements and official statements for its 2002 and 2003 offerings, its 2003 continuing disclosures, and presentations to the rating agencies failed to disclose material information regarding the City's current funding of its pension and retiree health care obligations, the City's

future pension and retiree health care obligations, and the City's ability to pay those future obligations." The Commission further concluded that "[t]he City, through its officials, acted with scienter."

The cease-and-desist order also imposed certain remedial sanctions, including the retention of an independent consultant to review and assess its policies, procedures and internal controls with respect to bond offerings, including disclosures made in its financial statements. On January 16, 2006 the City voted to retain the law firm of Edwards Angell Palmer & Dodge, LLP to serve as independent consultant. The independent consultant is required to conduct annual reviews of the City's policies, procedures and internal controls for a three year period, and provide copies of such annual reports to the Commission.

The Commission's investigation is ongoing as to individuals and other entities that may have violated federal security laws.

Finally, the City Attorney has prepared several reports regarding the City's underfunding of its pension system in which he concluded that various City officials violated provisions of federal securities laws and other State law. All of those reports are available on the City Attorney's website.

On March 16, 2007, the City received an opinion letter from KPMG regarding the City's 2003 financial statements and those audited 2003 financial statements were subsequently released to the public.

City of San Diego
M E M O R A N D U M

DATE: March 20, 2007
TO: Council President and City Council
FROM: Lakshmi Kommi, Debt Management
SUBJECT: Citigroup Global Markets Inc. ("Citigroup"), Community Reinvestment Activities

Provided herein is information on the Community Reinvestment Act (CRA) participation by Citigroup Global Markets Inc. ("Citigroup") in the County of San Diego. This information is being provided in connection with the Wastewater Private Financing. Citigroup is the proposed purchaser of the Subordinated Sewer Revenue Notes, Series 2007.

The Community Reinvestment Act, enacted in 1977, requires that banks and other financial institutions reinvest in the communities in which they conduct business. Their performance is monitored by the Federal Office of the Controller of the Currency and, locally, by the Regional Task Force.

Based on the information provided by Citigroup, Citigroup's community reinvestment in the San Diego region totaled \$612 million in 2005 (see attachment 1, which displays reinvestment volume in San Diego County for 1993 – 2005). Among the reinvestment activities are \$131.8 million in low and moderate-income census tracts, \$132.2 million in small business loans and \$23 million in affordable housing development. Also attached is information derived from the San Diego City-County Reinvestment Task Force, which specifies Citigroup's community reinvestment volume in San Diego County for 2005 totaled \$479.3 million.

Citigroup representatives will be at the City Council meeting to address additional questions that the Council members may have.



Lakshmi Kommi
Debt Management Director

Attachments: 1. Community Reinvestment Data provided by Citigroup
2. Community Reinvestment Data, San Diego City- County
Reinvestment Task Force

Overview of Citigroup's Community Reinvestment Activities in San Diego

Citigroup is proud of our long-standing history of serving the San Diego community through affordable mortgage and small business loans, community development lending and investments, community development services such as financial education, capacity building for nonprofits and volunteerism, and depository products and services tailored to the needs of low- and moderate-income ("LMI") populations such as the Access Account. We are also pleased to have been recognized by our examiners with "Outstanding" CRA ratings for Citibank (West), FSB and both of our predecessor organizations – Citibank, FSB and Cal Fed. Below are some of our community reinvestment highlights for 2005.

Affordable Mortgage Lending

Citigroup has a strong record of providing loans in LMI census tracts and to LMI households in San Diego County. Citigroup provides a broad array of mortgage products, including loans insured by the Federal Housing Administration ("FHA") and guaranteed by the United States Department of Veterans Affairs ("VA"), which supplement Citigroup's own affordable mortgage-related lending activities and programs.

Citigroup's affordable mortgage programs are extensive. One of our most attractive community lending programs is our signature proprietary program, Homebuyer Options. This program offers borrowers the option to put as little as \$500 toward a total downpayment of three percent. The remaining amount may come from a gift or grant, or from the Citibank Unsecured Installment Loan, which we make available at two percentage points above the first mortgage rate. The Homebuyer Options program utilizes flexible underwriting criteria and has no minimum credit score requirement. The program is available to borrowers at 100 percent of the area median income ("AMI"), but will allow higher income limits in high cost areas.

Citigroup also offers a host of other national programs in San Diego County, including Home on Time, HomeRun and our suite of My Community Mortgage products, among others. The Home on Time program enables LMI applicants to take advantage of refinance opportunities by qualifying based on the performance of his or her current loans rather than traditional documentation. The HomeRun program is designed to meet the needs of LMI borrowers by offering lower down payment requirements, flexible underwriting criteria and no mortgage insurance requirement. All borrowers must participate in a homebuyer education program. My Community Mortgage, a Fannie Mae community lending program, is designed to meet the needs of LMI borrowers by providing financing up to an LTV of 100% and down payments as low as \$500, provided that borrowers are at 100% or less of the area median income (higher for high cost markets) or purchasing in a Fannie Mae targeted neighborhood, which includes LMI census tracts and Central City designations.

Our commitment to providing affordable mortgage lending throughout the country is underscored by our CitiMortgage's pledge in 2003 to extend \$200 billion in affordable home loans to LMI, minority, and underserved families around the country by the end of the decade. We began tracking this commitment in July 2003, and in the first 24 months of the commitment,

we have made \$116.7 billion affordable lending nationwide. A large portion of this lending has benefited LMI families and communities in California, and in San Diego.

Mortgage Lending Results

In 2005, Citigroup¹ provided 1,150 Home Mortgage Disclosure Act ("HMDA")-reportable loans in LMI census tracts in San Diego County, accounting for 18.0% of loans made in all census tracts. This is slightly below the 2005 market aggregate of 19.7 %. Of Citigroup's 1150 loans, 1145 or 99.6%, were conventional loans; four or 0.3%, were FHA-insured loans; and one or 0.1%, were VA-guaranteed loans.

In 2005, Citigroup also provided 574 HMDA-reportable loans for \$98.4 million to LMI households, accounting for 9.0% of loans provided to all households in San Diego County. This is above the 2005 market aggregate of 5.6%. Of Citigroup's loans, 574 (for \$98.4 million), 570 or 99.3%, were conventional loans and four or 0.7%, were FHA-insured loans.

Citigroup also demonstrated a strong record of providing home purchase loans in LMI census tracts and to LMI households in San Diego County. In 2005, Citigroup provided 437 home purchase loans in LMI census tracts in San Diego County, accounting for 19.8% of home purchase loans made in all census tracts. This is slightly below the 2005 market aggregate of 21.7%. Of Citigroup's 437 loans, 435 or 99.5%, were conventional home purchase loans and two or 0.5%, were FHA-insured home purchase loans.

In 2005, Citigroup also provided 79 home purchase loans for \$14.1 million to LMI households, accounting for 3.6% of home purchase loans provided to all households in San Diego County. This is ahead of the 2005 market aggregate of 2.5%. Of Citigroup's home purchase loans, 79 (for \$14.1 million), 76 or 96.2%, were conventional home purchase loans and three or 3.8%, were FHA-insured home purchase loans.

Small Business Lending

A critical part of Citigroup's community development activities in San Diego County involves lending to small businesses. In 2005, Citigroup made 20,749 small business loans totaling over \$132,194 million.

In 2005, in San Diego County, Citigroup provided 4,427 small business loans in LMI census tracts for \$27.9 million. This is 21.3 % of our total small business lending for the year. We also provided 8,882 small business loans totaling \$68.0 million to businesses with revenues less than \$1 million dollars. This is 42.8 % of our total small business lending in 2005. Finally, we provided 20,729 loans of less than \$100,000 in size to small businesses, totaling more than \$126.8 million. This is 95.9% of our total small business lending in 2005.

Citigroup also is an active participant in providing small business loans arranged through the United States Small Business Administration ("SBA"), acting as an SBA Preferred Lender. We made nine SBA loans in 2005 for more than \$320,000.

¹ In terms of lending results, "Citigroup" includes all Citigroup affiliates that lend in San Diego County.

Community Development Lending

Citigroup also made several community development loans in San Diego County in 2005 to facilitate the development of affordable housing. In all, Citigroup provided community development loans for affordable housing, totaling more than \$30.0 million. Individual loans ranged in amount from \$470,000 to \$12.7 million. Citigroup provided multiple types of loans for affordable housing, including construction loans, acquisition loans, and permanent loans.

Consumer Lending

Reporting consumer loans for regulatory purposes is optional. We have elected not to report this type of lending.

Corporate Giving

Citigroup continued to be a strong supporter and funder of community initiatives in San Diego County in 2005. Citigroup provided funding through two main mechanisms – grants made through the Citigroup Foundation and sponsorships made directly through our businesses.

In 2005 in San Diego County, Citigroup provided grants totaling \$592,500 through the Citigroup Foundation and \$837,291 in business sponsorships. This funding supported organizations and programs dedicated to promoting financial literacy, increasing affordable housing, and providing social services for LMI populations.

Community Development Investments

Our community development investments primarily serve large regional areas in California, as opposed to individual cities or counties. As a result, county-level results are meaningless. In 2005, Citigroup invested \$92.6 billion in housing tax credits, certificates of deposit, and other investments in the State of California. Citigroup's community development investment in California had a portfolio value of \$666 million at the end of 2005. Many of these investments benefit San Diego.

Financial Center Distribution

We have 26 financial centers in San Diego County, eight (30.8% of total) of which are located in LMI census tracts. We have augmented our brick-and-mortar retail distribution with our extensive electronic banking network, including 24-hour banking by phone, online banking, and automated teller machines (ATMs), as well as other alternative distribution channels such as our Bank at Work program and specialized product offerings such as our Access Account.

Data for San Diego Community Reinvestment Task Force

Below is the information requested by the Task Force:

	2005
Mortgage LMI Tracts*	\$131.8
Affordable Housing Development**	23.0
Small Business Loans	\$132.2
Government Guaranteed	\$0.3
Conventional***	\$131.9
Community Development#	12.6
Consumer Loans##	\$172.3
Corporate Giving	\$1.42
Investments####	\$6.65
TOTAL	\$612.17

All of the above data include lending or investment in San Diego County by ALL Citigroup entities.

*Home purchase lending (originations and purchases) in LMI census tracts.

**Community development lending to for-profit or non-profit affordable housing developers.

***Includes Business Checking Plus, lines of credit, small business credit cards, term loans and other small business products.

#Multifamily lending in LMI census tracts.

Student loans, consumer credit cards, home equity loans and other consumer loans made in LMI census tracts or to LMI households.

Portion of Statewide investments that directly benefit San Diego.

2005 Reinvestment Volume in San Diego County: A Summary

San Diego Reinvestment Task Force

3989 Ruffin Rd.

San Diego, CA 92123

Background on the Reinvestment Task Force

- San Diego City-County Reinvestment Task Force (**RTF**) was established in 1977 as a joint City and County quasi-public entity
- Monitor banking practices in the region
- Develop strategies for reinvestment in partnership with public, community and private lending institutions
- Add community development equity investment
- Broaden investor base beyond banks

Monitor Lending Practices

Develop specific agreements with major lenders in the County of San Diego

- Home mortgages in low-mod census tracts
- Affordable housing development
- Small business lending
- Community development lending
- Consumer loans for low-income borrowers
- Corporate giving for housing and economic development
- Investments

Agreements with Banks

As of 2005 specific agreements with 10 institutions:

- Bank of America
- Washington Mutual
- Wells Fargo
- Union Bank
- CA Bank & Trust
- US Bank
- San Diego National
- Citibank
- Comerica
- Borrego Springs

Note: Borrego Springs' data is not included due to small size relative to the other 9 banks.

Market Share

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Institution	No. of Office 2005	No. of Offices 2006	%Market Share 2005	%Market Share 2006	Deposits 2006 (\$000)
Bank of America	75	71	18.19%	17.02%	8,043,653
Wells Fargo Bank	92	91	15.46%	16.06 %	7,588,133
Washington Mutual Bank	68	70	15.41 %	15.33 %	7,246,059
Union Bank of California	60	61	10.63 %	9.80 %	4,631,254
California Bank & Trust	27	27	5.51 %	5.45 %	2,573,368
San Diego National Bank	19	21	4.30 %	4.35 %	2,055,567
Citibank West	24	25	1.87 %	2.08 %	985,199
US Bank	39	42	4.08 %	3.59 %	1,697,909
Comerica Bank	2	3	1.40 %	1.28 %	604,549

source: FDIC Market Share Report for San Diego County: June 30, 2006

CRA Activity Data Categories

- Home Purchase Loans in Low and Moderate-Income Census Tracts (new home purchase loans)
- Affordable Housing Development
- Small Business Loans (businesses with annual revenue of \$1 million or less.)
 - Government Guaranteed
 - Conventional
- Community Development Loans (if not reported in another category)
- Community Consumer Loans (specialized low-income programs)
- Corporate Giving (for housing and community development)

2005 CRA Activity in San Diego

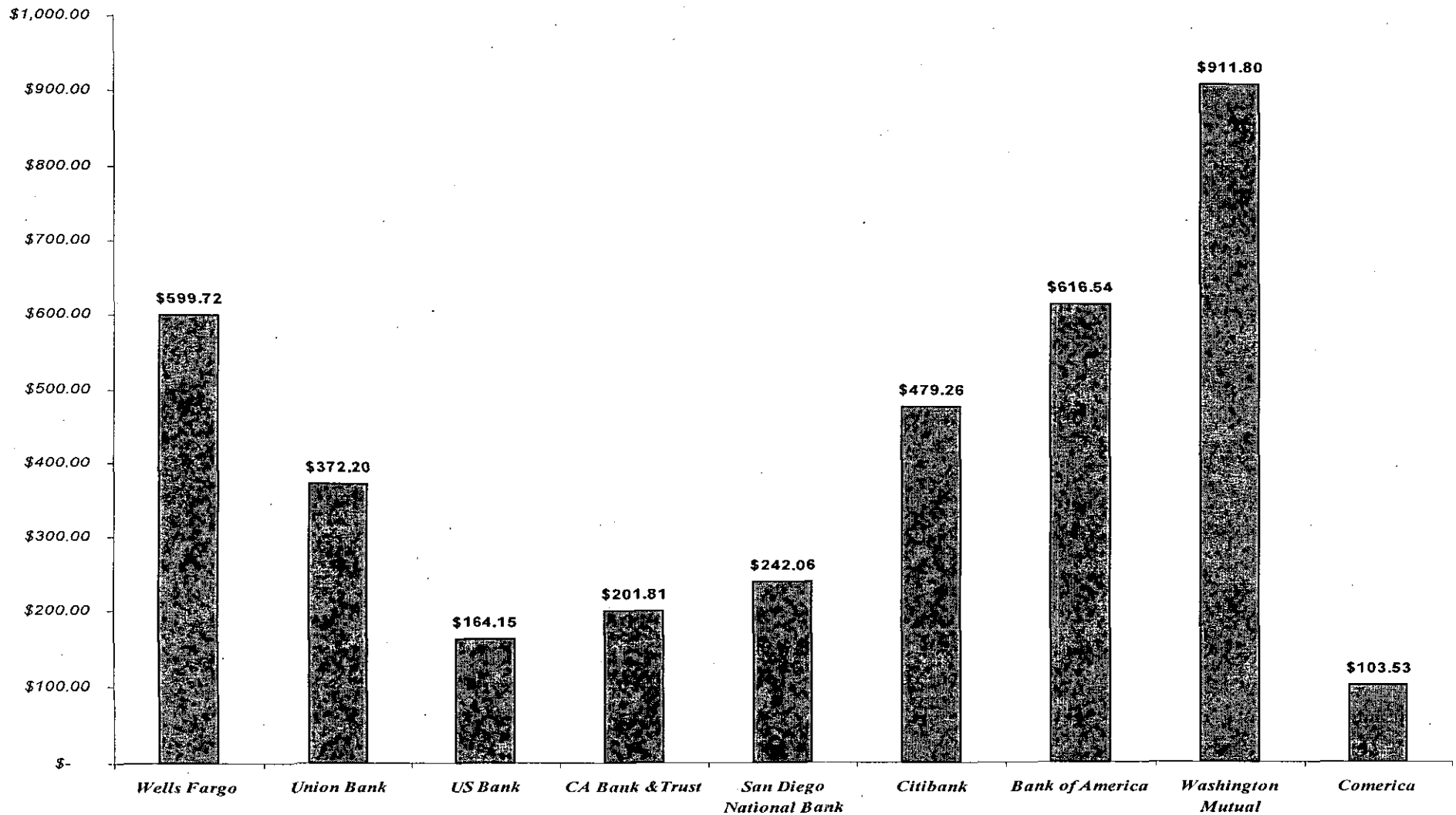
Lending Institution	CRA Amount (millions)	2005 Percent of Deposits	Percent of Deposits Difference 2004-2005
Citibank West	\$479.26	48.65%	-13.75%
Comerica	\$103.85	17.18%	-.14%
Washington Mutual	\$911.80	12.58%	1.08%
San Diego National	\$242.06	11.78%	.33%
US Bank	\$164.15	9.68%	1.10%
Wells Fargo Bank	\$599.72	9.46%	3.02%
Union Bank of California	\$372.20	8.04%	3.52%
Bank of America	\$201.81	7.81%	-2.79%
CA Bank and Trust	\$616.54	7.67%	2.32%
Total/ Average:	\$3,964.12	10.4%	1.21%

➤ *The CRA Amount Increased by \$675 million (20%) over 2004. The Percent of Deposits increased by 1.21% over 2003.*

2005 CRA Volume By Individual Banks

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Reinvestment Volume: By Agreement Banks San Diego County 2005 (in millions)



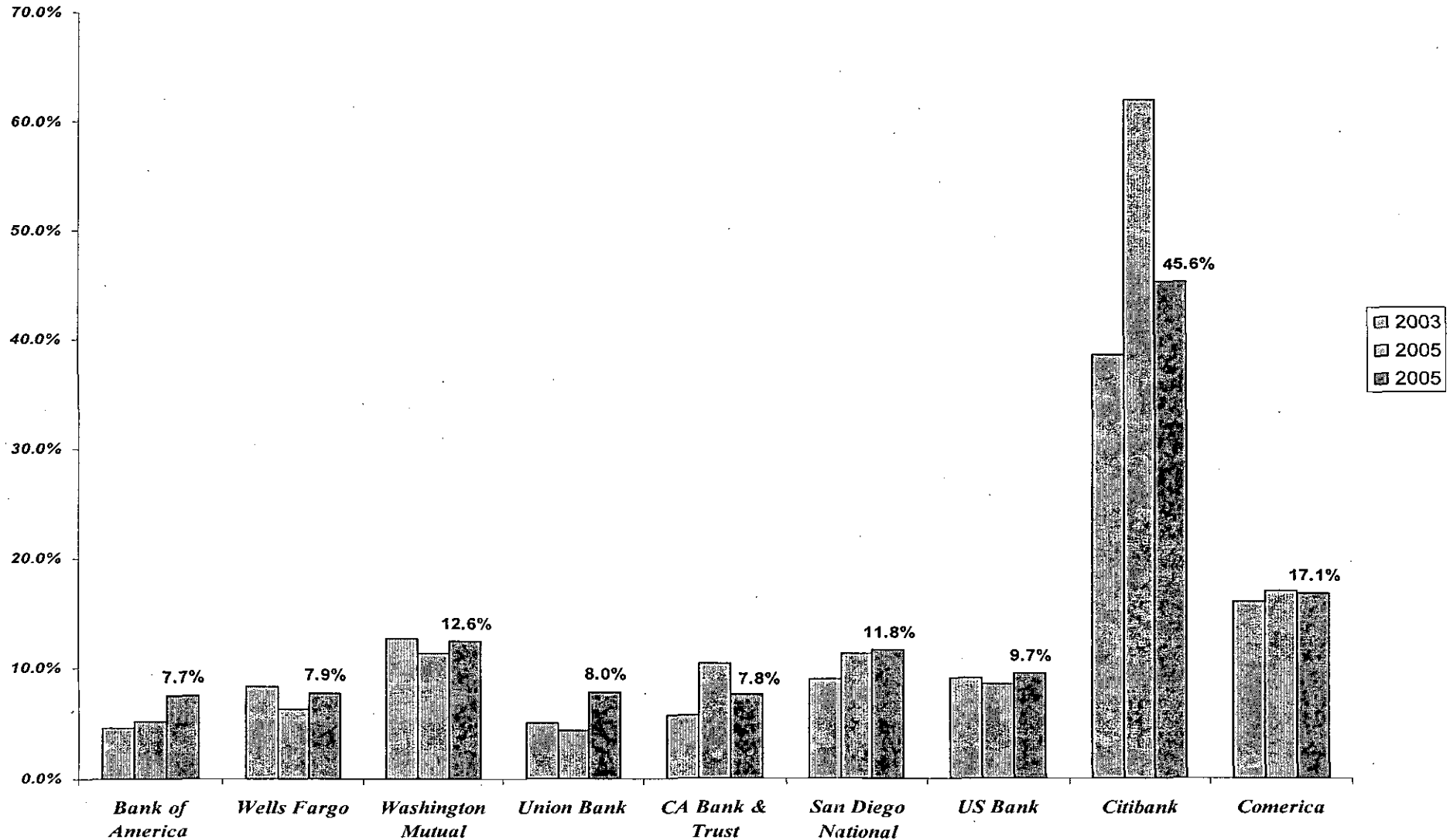
Difference in CRA Volume 2004-2005

Lending Institution	\$ CRA Volume Difference 2004-2005 (millions)	SCRA Volume Percent Difference 2004-2005
<i>Bank of America</i>	\$162.96	35.9%
<i>Wells Fargo Bank</i>	\$136.27	33%
<i>Washington Mutual</i>	\$85.46	10.3%
<i>Union Bank of California</i>	\$148.48	66.4%
<i>CA Bank & Trust</i>	-\$69.93	-25.7%
<i>San Diego National</i>	\$13.10	5.7%
<i>US Bank</i>	-\$0.81	-0.5%
<i>Citibank West</i>	-\$64.77	-11.9%
<i>Comerica</i>	-\$8.90	-7.9%

Agreement Banks' CRA Volume in San Diego as % of Deposit (2003-2005)

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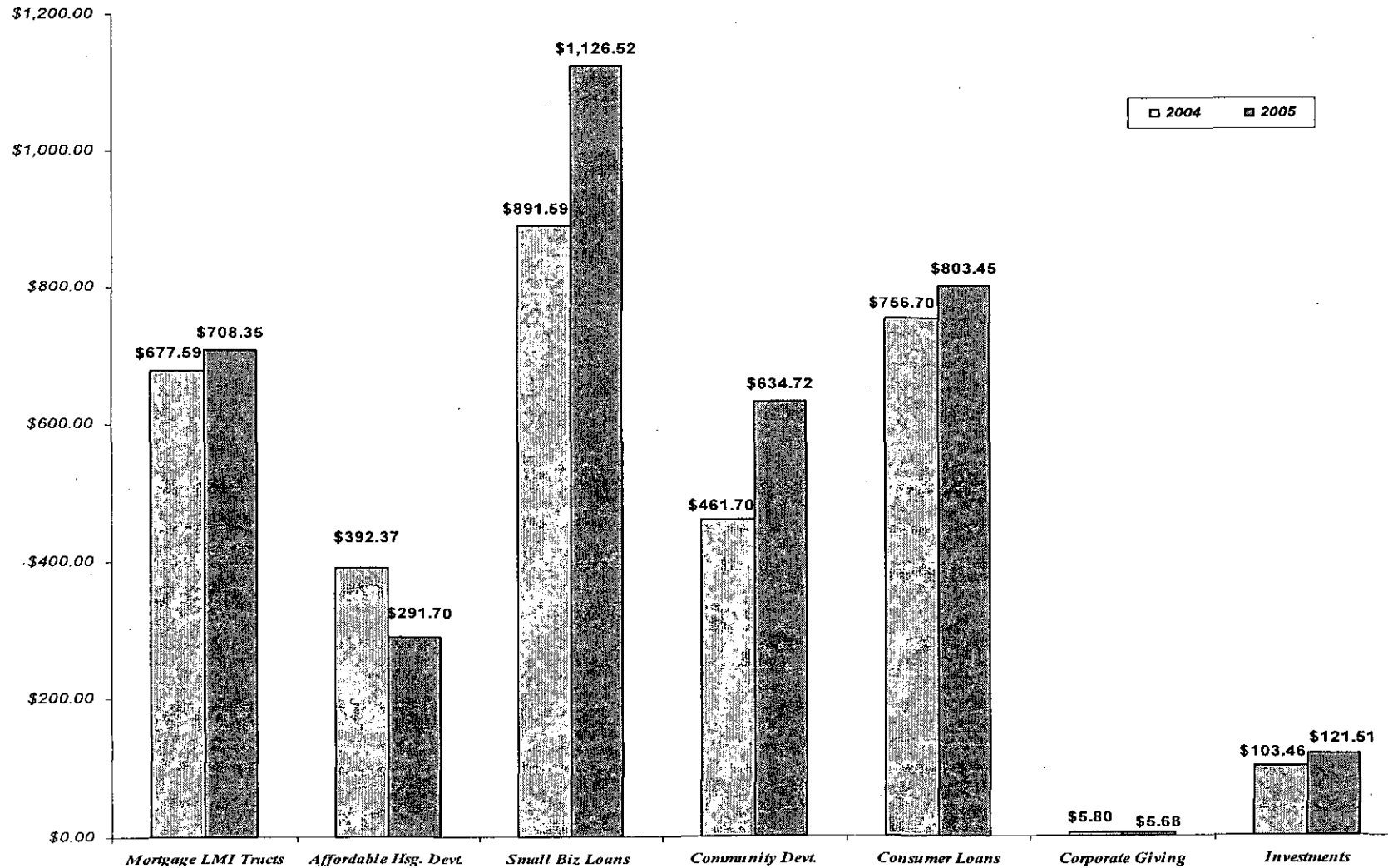
Agreement Banks' CRA Volume in San Diego as % of Deposit (2003-2005)



Reinvestment By Category: 2004-2005

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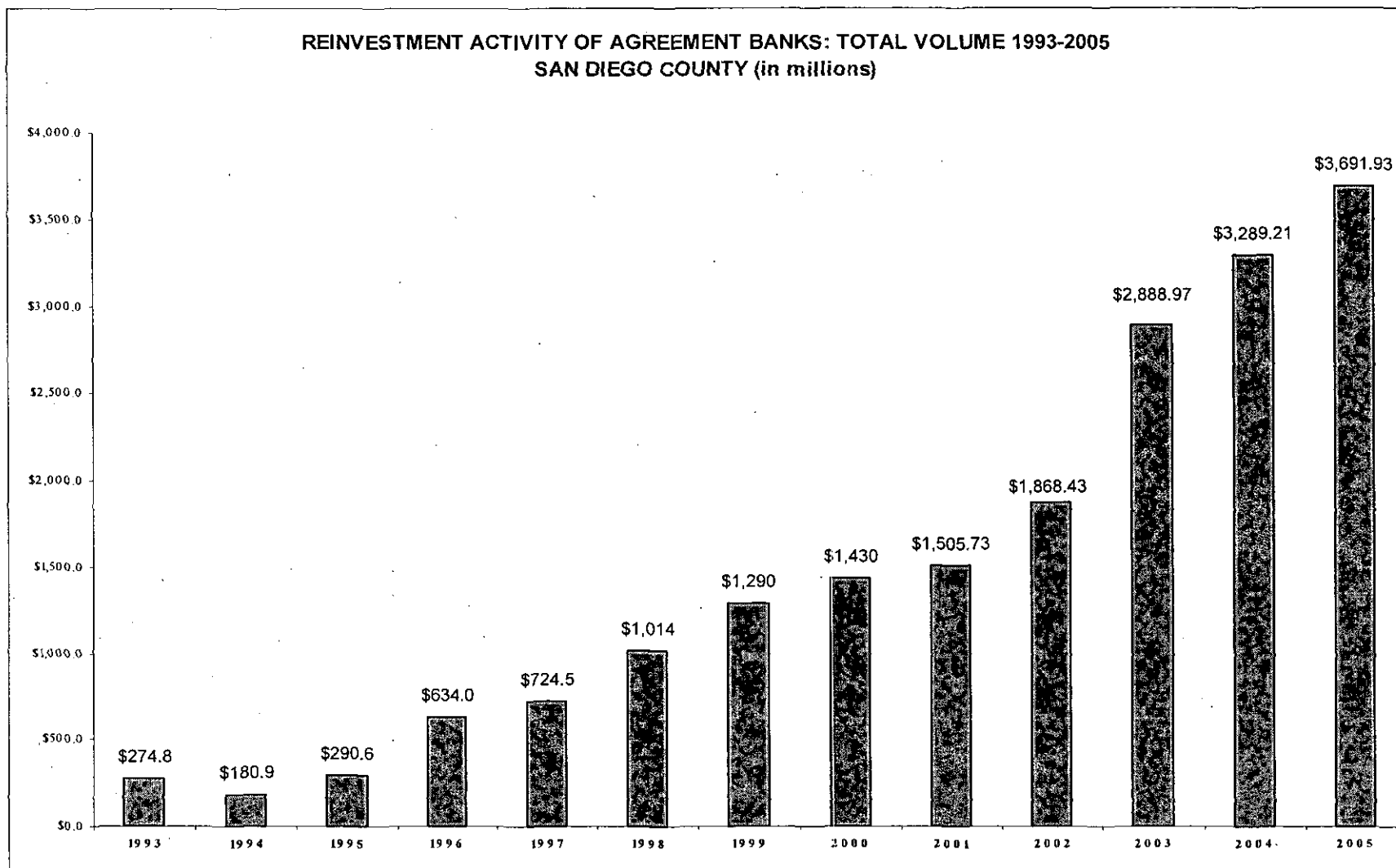
REINVESTMENT ACTIVITY: VOLUME BY CATEGORY 2004-2005 SAN DIEGO COUNTY (in millions)



Reinvestment Difference By Category: 2004-2005

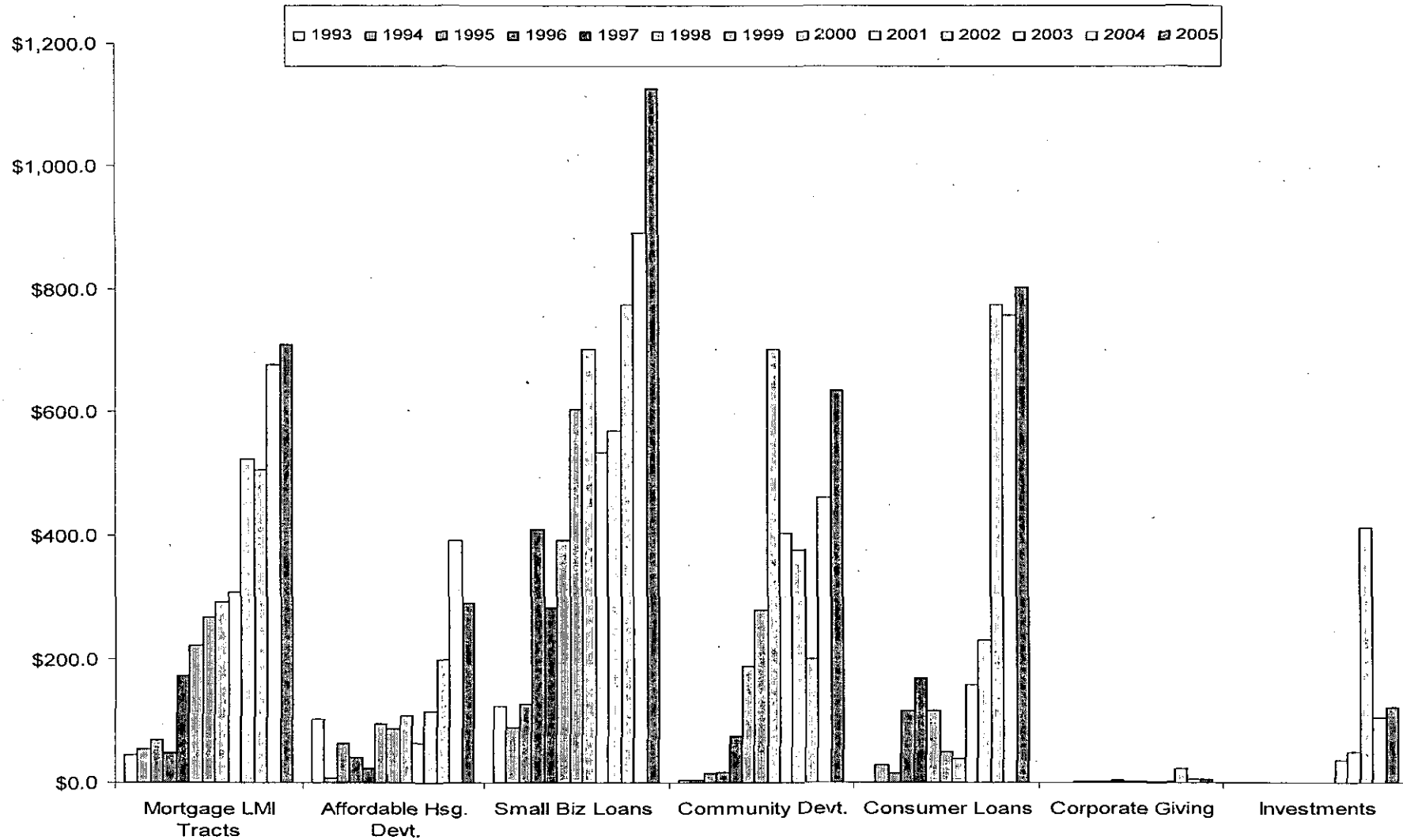
Category	\$ Difference (millions) 2004-2005	% Difference 2004-2005
Mortgage LMI Tracts	\$30.76	4.5%
Affordable Housing	\$(-100.67)	-25.7%
Small Biz Loans	\$234.93	26.3%
Community Development	\$173.02	37.5%
Consumer Loans	\$46.75	6.2%
Corporate Giving	\$(-0.12)	-2.1%
Investments	\$18.05	17.4%

Total Reinvestment Volume 1993-2005



Reinvestment History by Category

Reinvestment History: Agreement Banks 1993-2005 San Diego County (millions)

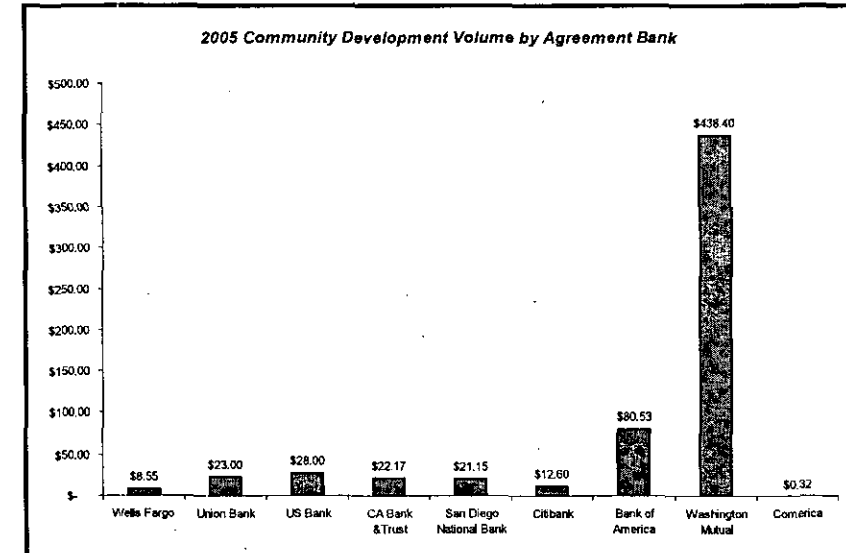
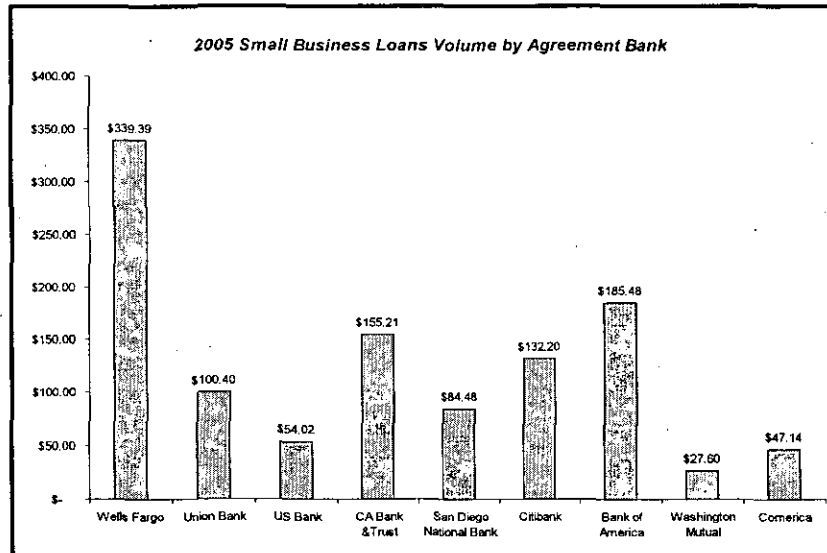
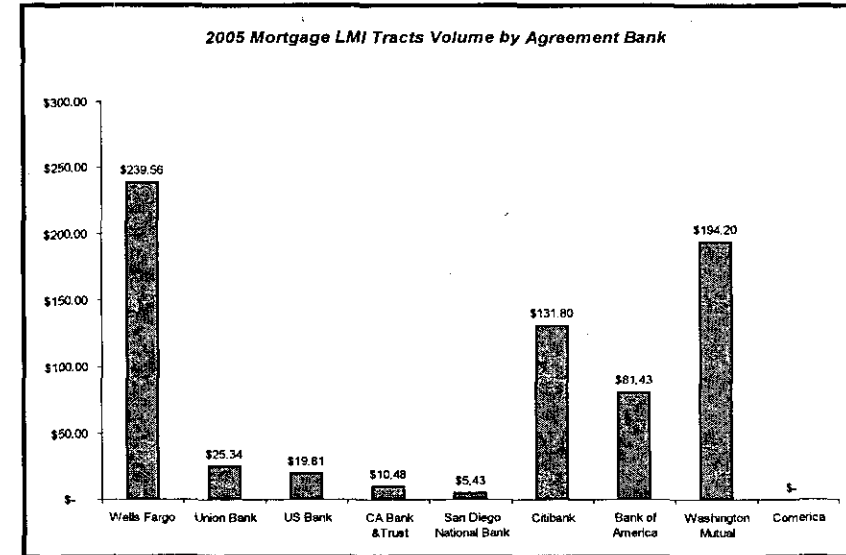
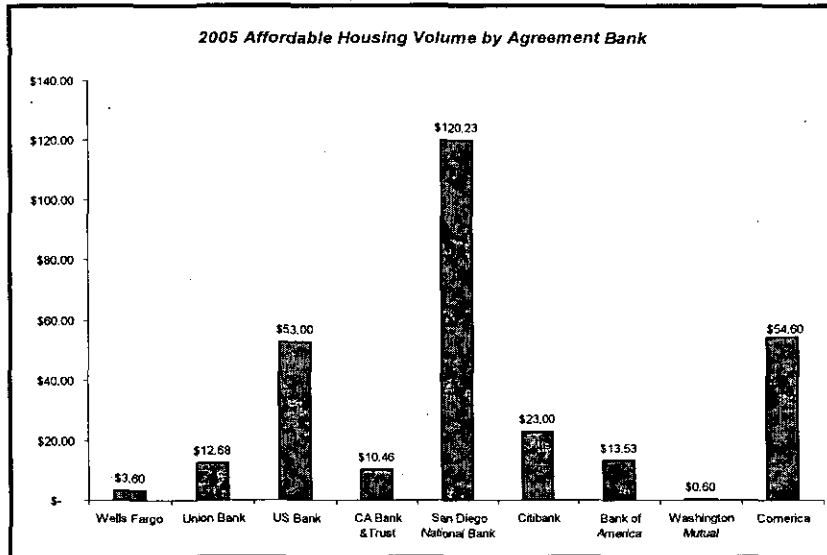


1993-2005 Category Totals

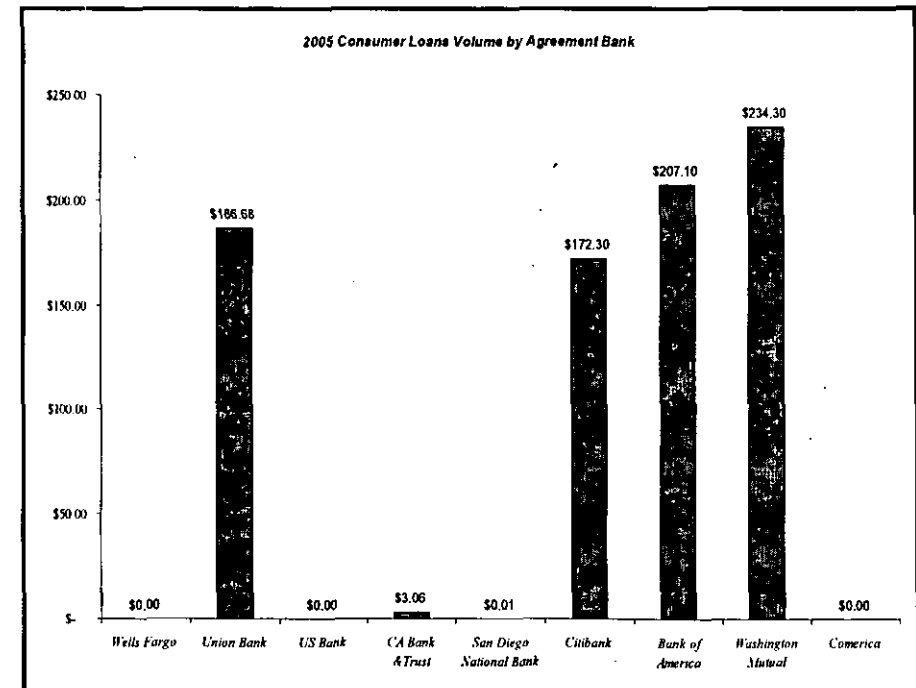
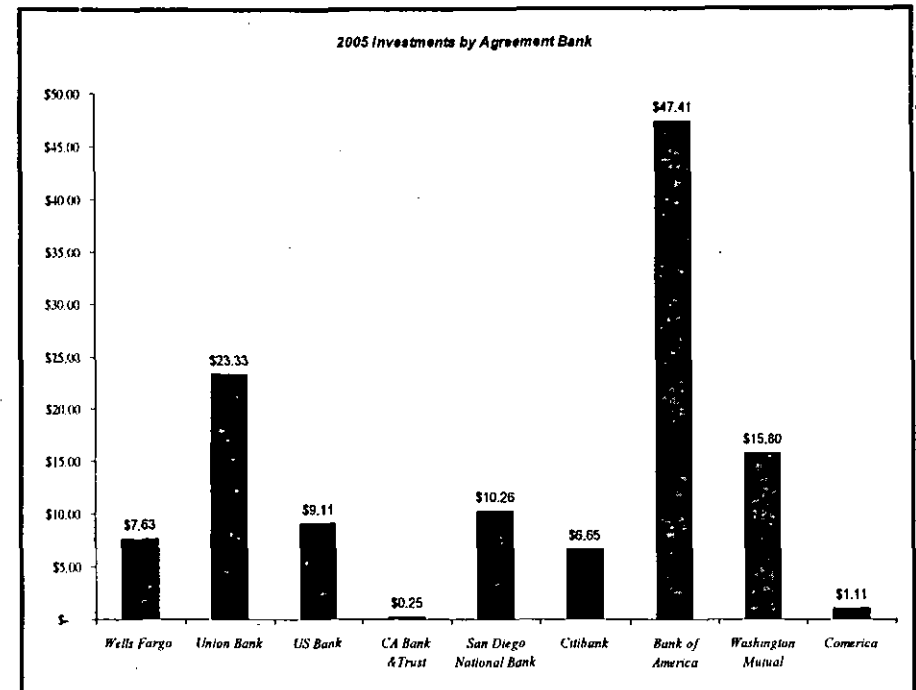
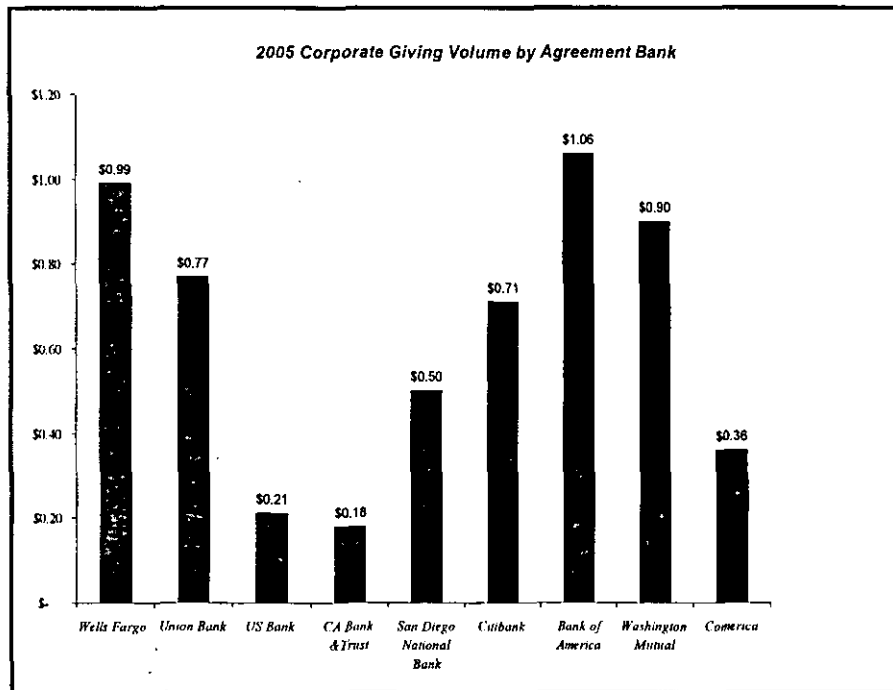
Category	1993-2005 (millions)
Mortgage LMI Tracts	\$3,893.52
Affordable Hsg. Devt.	\$1,586.11
Small Biz Loans	\$6,592.27
Community Development	\$2,979.71
Consumer Loans	\$3,254.45
Corporate Giving	\$53.21
Investments	\$723.23
Totals	\$19,082.50

Agreement Banks' 2005 Volume by Category

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Agreement Banks' 2005 Volume by Category Contd..



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